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ABSTRACT

In this text of hearings held before a congressional committee on the Aid to Families with Dependent Children (AFDC) program are statements from a number of specialists regarding the administration of public assistance, and relevant information on low income families. Specific data and the more general theory of social welfare and reform are discussed. In many of the papers and in the evidence presented by participants, statistics on income related issues, such as employment, are included. Work undertaken during previous and the current presidential administrations is described as are features of public assistance programs in various states. Food stamp, human resource, and various work incentive programs are reviewed. An overriding concern for cost efficiency in all federal welfare programs is evident in these hearings. Some suggestions for reform are outlined. (GC)

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ADMINISTRATION OF THE AFDC PROGRAM

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON

GOVERNMENT OPERATIONS

HOUSE OF REPRESENTATIVES

NINETY-FIFTH CONGRESS

FIRST SESSION

JULY 19, 21, 26; SEPTEMBER 27; OCTOBER 4 AND 5, 1977

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ADMINISTRATION OF THE AFDC PROGRAM

TUESDAY, JULY 19, 1977

House of Representatives,
Intergovernmental Relations
and Human Resources Subcommittee
of the Committee on Government Operations,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:40 a.m., in room 2247, Rayburn House Office Building, Hon. L. H. Fountain (chairman of the subcommittee) presiding.

Present: Representatives L. H. Fountain, Don Fuqua, Elliott H. Levitas, John W. Wydler, and John E. (Jack) Cunningham.

Also present: Delphis C. Goldberg, professional staff member; Pamela H. Welch, secretary; and John Duncan, minority professional staff, Committee on Government Operations.

Mr. Fountain. The subcommittee will come to order. Let the record show that a quorum is present.

The subcommittee begins an important series of hearings this morning on the aid to families with dependent children program.

AFDC is the Nation's largest and costliest cash assistance program, providing income support for more than 11 million needy people at an annual cost of approximately $10.7 billion. AFDC is a cooperative Federal-State program in which the Federal Government is responsible for more than half of the total costs.

This subcommittee has had a longstanding interest in improving the administration of our welfare and other human resource programs. In looking recently at hearings we held 19 years ago—specifically in May 1958—I was surprised to find that many of the same questions and problems are now being discussed in connection with welfare reform.

The principal difference is that the new programs such as food stamps and medicaid have since been added, and both the cost and the number of participants in the various welfare programs have increased tremendously during the past two decades. To illustrate this point, the Federal, State, and local governments spent approximately $800 million in 1958 for the aid to dependent children program—as compared with the present cost of nearly $11 billion.

The primary purpose of these hearings is to learn, through a close examination of the program, how AFDC can be made to operate more efficiently and equitably.

We are aware, of course, that the administration is actively studying avenues for welfare reform. However, I am confident that improvements in existing AFDC policies and practices will be a basic requirement for the success of any restructuring of our present welfare programs. Even the adoption of a negative income tax, in all probability, would not completely eliminate the need for a residual assistance program to help people with extraordinary living costs.

Consequently, it is very important that both Congress and the administration have a detailed understanding of how and why our present welfare operations have been deficient, and how these deficiencies might be remedied. It is the premise of these hearings that there is large scope for improving the efficiency, the economy, and the equitableness of the AFDC program—as well as of other welfare programs—even in the absence of basic structural changes in the welfare system.

I believe we may have made an excellent start in this direction with the very useful committee print on the Administration of the AFDC Program, prepared for the subcommittee by the Congressional Research Service. This document has been distributed to the witnesses and to the members of the subcommittee.

The focus of today's hearing is on the economic and social background that necessitates national assistance programs. We have asked each of our distinguished witnesses to discuss differing aspects of this overall problem. However, since their areas of expertise are quite broad, I anticipate they will not be adverse to commenting on each other's presentation during the questioning.

To develop the subject in an orderly fashion, we have asked Dr. Lampman to be the leadoff witness in providing a general overview of the relationship between welfare and poverty. We have asked him, for example, to explain the extent to which those who are classified as poor are receiving welfare today and the extent to which welfare is supplemental to earnings.

Dr. Rivlin will follow with a discussion of the measurement of poverty and an estimate of the reduction in poverty that can be credited to welfare programs.

Dr. Levitan, who will testify last, has been asked to focus his remarks on the employability of welfare recipients and of the poor.

Following their prepared statements, the witnesses will sit as a panel for questioning.

Mr. Wydler, do you have any opening statement?

Mr. WYDLER. Mr. Chairman, I would like to make a few brief opening remarks. First of all, I would like to extend my congratulations to you for what strikes me as a timely set of important hearings.

The AFDC program is probably one of the most important of the welfare programs. It costs some $11 billion per year and is perhaps the one program most easily identified by Americans when they think of or complain about the welfare system. There is probably no better time than now to be evaluating the administration of this program. Since the executive branch is in the process of developing its own welfare reform proposals, it seems to me that these hearings could do much to indicate to the administration the kinds of changes in the AFDC program that they should focus on.

I must say that the witnesses that will appear before the committee have a very difficult task. Welfare programs are not easy to understand. AFDC is probably as complicated a program as could exist.

And yet, through these witnesses, this subcommittee must be able to understand in quite some detail the nature and the problems of AFDC. I expect that the witnesses will be insightful and will be able to communicate their experiences well.

The welfare system, despite its unwieldiness, has most clearly grown into a vital support for millions of poor people. The combined benefits of various programs—food stamps, medicaid, AFDC, SSI, and housing subsidies—raise incomes of some 20 million out of America's 25 million poor families above the official poverty line.

Many might consider this an indication that the welfare system is indeed achieving the important goal of lifting people out of poverty. Yet, even a cursory look at the welfare system in general, and the AFDC program in particular, indicates that the system is blatantly unfair. It punishes families that try to stay together; it punishes anyone unfortunate enough to live in a State with miserly benefits.

Costs of administering the program appear to be skyrocketing. Error rates, by any standard, are excessive. The program, primarily because of its administrative complexity, appears to be ripe for fraud and abuse.

I view this subcommittee's responsibility as one of highlighting specific areas where improvements might be made. I look forward to hearing from today's witnesses.

Thank you, Mr. Chairman, for your permission to make these opening remarks.

Mr. **Fountain**. Mr. Levitas, do you have any opening comments?

Mr. **Levitas**. No, Mr. Chairman.

Mr. **Fountain**. If the witnesses will come up and take seats, we will proceed.

Dr. Rivlin, we welcome you. We are beginning to have more and more of the fairer sex in positions of high responsibility, and we find that their performance is generally good. We are delighted to have you with us.

Dr. **Rivlin**. Thank you.

Mr. **Fountain**. Dr. Lampman will be our first witness. He is a fellow at the Institute for Research on Poverty and professor of economics at the University of Wisconsin.

We will have Dr. Lampman's curriculum vitae made a part of the record.

STATEMENT OF DR. ROBERT J. LAMPMAN, PROFESSOR OF ECONOMICS AND FELLOW OF THE INSTITUTE FOR RESEARCH ON POVERTY, UNIVERSITY OF WISCONSIN, MADISON, WIS.

Dr. **Lampman**. Thank you, Mr. Chairman.

My remarks are addressed to three questions: First, what is the relationship between those who are "income poor" and the "welfare poor?" Second, what is the connection between the poor and the world of work? And third, what is the future role of welfare in pursuit of the goal of bringing the money income of all Americans above stated poverty lines?

Those commonly referred to as those on welfare numbered about 16 million persons in a typical month in 1974. They were receiving cash benefits from Aid to Families with Dependent Children, Supplemental Security Income, and general assistance.

Undoubtedly, more than 16 million persons received such benefits at some time during the year. My rough guess is that about 20 million people did.

This number of 20 million beneficiaries of "welfare" is not too different from the number of persons; namely, 24 million, counted as "income poor" in 1974. However, we know that not all of those on welfare at any time during the year were income poor; and, also, we know that less than half of those who were income poor actually received public assistance.

One count of the 1974 welfare population is the 16 million, and another would be the 20 million that I referred to. A third concept would take us to a count of those who are eligible for assistance at any time during the year. One estimate is that those eligible for AFDC and SSI in 1974 was 24.7 million.

It is important, of course, in thinking of the welfare population to remember that it is not comprised of the same individuals year after year—or even month after month. Some come on the welfare rolls each month and some leave. There is doubtless some combination of circumstances that could make any one of us eligible for and in need of welfare. Conversely, there are many "alumni" of the welfare system who are now prosperous citizens.

We get a picture of the residual role of welfare by counting the number of people who would be poor in the absence of cash transfers of several kinds. About 42 million people would have been counted as poor in 1974 if their incomes had consisted only of nontransfer income.

However, 15 million were taken out of income poverty by social insurance benefits, Government employee and veterans' pensions, and compensation. This left 27 million in "prepublic assistance poverty." And public assistance, in turn, lifted about 3 million people out of poverty and left 24 million in "post-transfer poverty."

I would like to emphasize, Mr. Chairman, that one statistic which is very important but which receives little attention is that having to do with pretransfer poverty. Pretransfer poverty indicates to us the shortfall, you might say, of the private economy in providing income to people. It indicates the role open for transfers of various kinds, including the social insurances, the veterans' programs, and, of course, public assistance.

So I would emphasize that it would be important in census presentations to emphasize what is happening year by year to pretransfer poverty.

Now the pretransfer poverty income gap was $45 billion in 1974. The total amount of cash transfers received by the pretransfer poor—80 percent of whom received a transfer—was $53 billion. This was more than enough to fill the gap, but some of it went to people who were carried well over the poverty line. And the posttransfer poverty income gap was $15 billion.

What is the connection between the poor and the world of work? The composition of the post-transfer poor differed from the Nation in a number of now familiar ways. But families with an unemployed head made up only 9 percent of all poor families. So unemployment is not the most distinguishing characteristic of the poverty population. One can be impressed by how many of the poor are employed.

For example, one quick summary of this would be that the low-income persons who did not work for reasons other than school, illness or family responsibilities represent only 5 percent of all poor persons of working age

Of course, there is a great difference between women heading families and all others. The amount of work actually performed by the so-called welfare mothers is rather limited. Only about 15 percent of welfare mothers are, at any moment, apparently working outside the home. And according to one study, the work involvement of welfare mothers is extensive but intermittent.

That study goes on to say: "Turnover in the welfare population is high. Most families going on welfare leave the program within a few years. While there is substantial movement from welfare to nonwelfare status, the latter often being attained as a consequence of reemployment, there also is substantial welfare recidivism."

When talking about AFDC and welfare mothers, it is also important to think of "welfare fathers." Only about one-tenth as many of them are on the rolls as are mothers on AFDC.

The third question I was asked to address is: What is the future role of welfare in pursuit of the antipoverty goals?

Poverty will be eliminated in the United States via improvements in pretransfer incomes and in transfers. In the period of 1968 to 1974, there was virtually no improvement in the rate of pretransfer poverty—which stood at about 20 percent of the population in both years. Substantial increases in transfer payments contributed to the slow progress that was achieved in terms of post-transfer income poverty.

Currently, the controversy about future welfare reform turns around jobs versus cash and in-kind benefits of the poor. And, of course, there are many controversial matters surrounding each of these directions of antipoverty efforts.

One of the controversies about extending more cash transfers to the poor has to do with which new groups we could add to the welfare rolls, so to speak. What, in particular, should be done about fathers of intact families? What should be done about unrelated individuals—people who are, in a sense, noncategorical poor.

When we talk about in-kind benefits for the poor, we are touching on a subject where the greatest progress, I suppose, has been achieved in the last 10 years. Congress has shown that it favors extending in-kind benefits rather than cash benefits to many poor persons. With the food stamp program and medicaid and some housing programs, we are now spending considerably more on in-kind benefits than we do on cash benefits for the poor.

As the Congressional Budget Office has well summarized it, if these in-kind transfers could be counted as being as good as cash, then the post in-kind transfer poverty rate is as low as perhaps 8 percent. And using this concept, we have made extraordinary progress against poverty since 1965. The rate has been cut by 56 percent.

Clearly, then, further expansion of in-kind benefits is an option in planning to reduce poverty. Setting national minimums for medicaid and developing a full-blown rent allowance program would be steps which Congress could take in this direction.

The third alternative for welfare reform would, of course, be job creation for the poor. And there are, of course, many problems and controversies within that general line of thought. There are questions relating to what kinds of jobs at what rates of pay and to which parts of the poverty population. Also, there are many problems concerning administration and there are uncertainties about overall cost. But that is a possible route.

I conclude, Mr. Chairman, by saying that the future role of what is traditionally called welfare will depend on changes that occur in the economy and in the social order. It will also depend on decisions made concerning the relative importance of cash and in-kind benefits and job creation for the poor.

But it does seem likely that we will always rely on welfare—or a near substitute for it—in the long struggle against poverty. It is important, therefore, that welfare programs be designed and administered in an efficient and equitable manner.

Thank you, Mr. Chairman.

Mr. FOUNTAIN. Thank you very much, Dr. Lampman. A copy of your curriculum vitae and the entire text of your statement will be made a part of the record.

[Dr. Lampman's curriculum vitae and prepared statement follow:]

CURRICULUM VITAE OF DR. ROBERT J. LAMPMAN

Robert J. Lampman is William F. Vilas professor of economics at the University of Wisconsin. He is also a fellow of the Institute for Research on Poverty. He has been at Wisconsin since 1958.

From 1948 to 1958 he was a faculty member of the University of Washington in Seattle. He has been visiting professor at the American University of Beirut in Lebanon (1951–52), the University of the Philippines (1966–67), and Cornell University (1973–74). He was research associate at the National Bureau of Economic Research in New York, 1957–58. In 1962–63 he was a staff member of the Council of Economic Advisers.

Mr. Lampman was born in Wisconsin and educated in that state except for one year in California. He received a B.A. degree in 1942 and a Ph. D. in 1950 from the University of Wisconsin. He was on active duty as an air navigator with the United States Naval Reserve from September 1942 to February 1946.

His principal publications include the following:

"The Low Income Population and Economic Growth," U.S. Congress, Joint Economic Committee, 1959.

"Top Wealth-Holders' Share of National Wealth," Princeton University Press, 1962.

"Washington Medical Service Corporation" (co-author), Harvard University Press, 1962.

"Ends and Means of Reducing Income Poverty," Rand McNally for the Institute for Research on Poverty, 1971.

PREPARED STATEMENT OF DR. ROBERT J. LAMPMAN, PROFESSOR OF ECONOMICS AND FELLOW OF THE INSTITUTE FOR RESEARCH ON POVERTY, UNIVERSITY OF WISCONSIN, MADISON, WIS.

My remarks are addressed to three questions. (1) What is the relationship between those who are "income poor" and the "welfare poor"? (2) What is the connection between the poor and the world of work? and (3) What is the future role of welfare in pursuit of the goal of bringing the money income of all Americans above stated poverty lines?

1. What is the Relationship Between Those Who Are "Income Poor" and "The Welfare Poor"?

Those commonly referred to as those on welfare numbered about 16 million persons in a typical month in 1974. They were receiving cash benefits from Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), and General Assistance (GA). Undoubtedly, more than 16 million persons received such benefits at some time during the year. My rough guess is that about 20 million people did. (This is based on a lower limit supplied by the Census' Current Population Survey (CPS) showing that 6 million households reported receipt of public assistance, and an upper limit supplied by the Congressional Budget Office (CBO) estimate that 10.7 million families and unrelated individuals must have received public assistance during the year 1976. The latter estimate adjusts both the population base and the definition of public assistance (CBO, 1977).

This number of 20 million beneficiaries of "welfare" is not too different from the number of persons, namely, 24 million, counted as "income poor" in 1974. However, we know that not all of those on welfare at any time during the year were income poor and, also, we know that less than half of those who were income poor actually received public assistance. One does not have to have income below the Social Security Administration Poverty guidelines either before or after the receipt of public assistance in order to receive public assistance. One does have to meet categorical standards, e.g., be aged or in a broken family, and specific income and resource limits as set by the relevant jurisdiction and program. The variations in filing unit, income definition, and income period make it possible for a person to receive public assistance during part or all of a year and to be counted in a unit reporting above the poverty-line income for the whole year. These same categorical standards and critical definitions make it possible for a person to be in a unit that is income poor and not be eligible for public assistance. One recent estimate is that about half of the poor were not eligible in 1974 (Zentay, 1976). Further, it is generally believed that less than 100% of those who are eligible actually participate in AFDC, SSI, and GA.

One count of the 1974 welfare population is the 16 million listed in monthly program reports; another count, is the 20 or so million who received assistance at any time duri[illegible]e year. A third concept would take us to a count of those who are eligible for assistance at any time during the year. The paper by Zentay referred to above, gives an estimate of those eligible for AFDC and SSI in 1974 of 24.7 million persons.

It is important in thinking of the welfare population to remember that it is not comprised of the same individuals year after year, or even month after month. Some come on the welfare rolls each month and some leave. There is doubtless some combination of circumstances that could make any one of us eligible for and in need of welfare. Conversely, there are many "alumni" of the welfare system who are now prosperous citizens.

Public assistance is meant to be a last resort for income. If people do not have adequate earnings or property income, and do not have social insurance benefits that meet basic needs, they have to apply for welfare. It is well said that welfare compensates for failures of the economy, the social order, the family, and the individual. We get a picture of the residual role of welfare by counting the number of people who would be poor in the absence of cash transfers of several kinds (see Table 1). About 42 million people would have been counted as poor in 1974 if their income had consisted only of non-transfer income. However, 15 million were "taken out" of income poverty by social insurance benefits, government employee and veterans' pensions and compensation. This left 27 million in "pre-public assistance poverty." Public assistance, in turn, lifted about 3 million people out of poverty, and left 24 million people in "post-transfer poverty." The table presents a parallel analysis by the CBO.

Related to this line of thinking about poverty-reduction is the observation that in 1974 the pre-transfer poverty-income-gap was $45 billion; the total amount of cash transfers received by the pre-transfer poor (80 percent of whom received a transfer) was $53 billion. This was more than enough to fill the gap but some of it went to people who were carried far over the poverty line, and the post-transfer poverty-income-gap was $15 billion.

Table 1

	1974 (in millions of persons)	1976 (in millions of families)
Those poor in terms of pre-transfer income	42	21.4
Those poor after receipt of transfer other than public assistance	27	12.5
Those poor after receipt of all transfers including public assistance	24	10.7

Sources: For 1974, unpublished papers by Robert Plotnick and Sheldon Danzgier. For 1976, CBO, 1976.

This type of analysis points to the possibility that people remaining in poverty could be taken out by more transfers. But they could also be non-poor if they had higher pre-transfer incomes. It is to that point we now turn.

2. What is the Connection between the Poor and the World of Work?

The pre-transfer poor were 20% of the population in 1974. The post-transfer poor made up 12% of the total in that year.

The composition of the latter group differed from the rest of the nation in a number of ways. It was disproportionately located in the South (44%) and in what have been designated as "poverty areas" (44%). It was relatively poorly educated, with 32% of family heads having 8 years or less of schooling. It was also disproportionately non-white (31%). About half of all the poor were single women or in family units headed by women. One-fifth of the group were unrelated individuals. Half the poor families were headed by a person out of the labor force.

The frequency of poverty was two or more times as high as the overall average of 12% for the following groups: unrelated individuals, female heads, Negroes, families with 5 or more children, farmers and farm laborers, and families where the head did not work during the year. Interestingly, the frequency of poverty was below the national average for families headed by a person 65 years of age or older. And for families where the head was unemployed, the frequency of poverty was only slightly above the average at 16%.

Families with an unemployed head made up only 9% of all poor families (compared to 5% in the total population). So, unemployment is not the most distinguishing characteristic of the poverty population. Looking at the figures another way, one is impressed by how many of the poor are employed. 3.2 out of 5.1 million poor families had at least one earner in 1974; 1.0 million had two or more earners. 1.2 million poor family heads worked the full year, while another 1.5 million worked part of the year.

Of the latter group, only 643,000 gave unemployment as the reason; the remainder cited such reasons as disability and family responsibilities.

Table 2 displays the reasons for not working given by low-income persons 14 years old and over and by a sub-class of the poor, namely, unrelated individuals. The table shows that the poor differ from the non-poor chiefly with respect to disability and school attendance. Low income persons who did not work for reasons other than school, illness, or family responsibilities represent only about 5% of all poor persons of working age.

The numbers cited above are without regard to sex or age of family head. They are, however, markedly different for families headed by men and those headed by women. Half of 2.4 million female-headed poor families had at least one earner; .3 million female heads worked the full-year and .7 million worked part of the year. Of the latter group, 196,000 gave unemployment as the reason for less than full-year work. Table 3 compares the work experience of poor and non-poor mothers with children under 18.

In contrast, 75 percent of all poor, male family heads worked during the year; 51% worked full-time, year around. In about 90% of the poor families headed by a male who is not ill, disabled or retired, the man worked at some time during the year.

One group of the poor in whose work effort there is special interest are the so-called "welfare mothers," on AFDC rolls. In any recent month about 3 million women with 7 million children have been in this status. In 1974, this group received $8 billion in AFDC cash benefits. At any moment in time, 15% of the welfare mothers are working outside the home;

Table 2

Work Experience of all Persons 14 Years Old and Older, and All Unrelated Individuals, by Low-Income Status in 1973

Work Experience	All Persons 14 Years Old and Older: Total	All Persons 14 Years Old and Older: Below Low-Income Level	All Unrelated Individuals: Total	All Unrelated Individuals: Below Low-Income Level
Total (in millions)	157.3	15.4	18.3	4.7
Percentages of Total				
Worked last year	69	40	62	35
Did not work	34	60	38	65
Main reason for not working				
Ill or disabled	5	14	10	23
Keeping house	17	23	13	19
Going to school	7	12	1	5
Unable to find work	1	2	0	0
Retired	5	7	11	13
Other	0	2	1	3
In armed forces	1	0	0	0

Source: U.S. Bureau of the Census, Current Population Reports, Series P-60 No. 98, January 1975, Tables 13 and 31.

Table 3

Women with Own Children Under 18 Years Old, by Low-Income Status in 1973, and Work Experience

Work Experience of Mother	All	Below Low-Income Level
Wives of family and sub-family heads		
Total (in millions)	26	1
Percent who worked last year	53	34
Full year, full time	18	5
Female family and sub-family heads		
Total (in millions)	5	2
Percent who worked last year	65	43
Full year, full time	31	8

Source: U.S. Bureau of the Census, Current Population Reports, Series P-60, No. 98, January 1975, Table 34.

almost half have previously been employed. This group's involvement with the job market is characterized in one study as "extensive but intermittent." Half of the families have earnings at some time during the year, and over a three-year period, three-fifths of the family heads worked at one time or another, and 35% worked for one-third or more of the period (Friedman and Hausman, 1974).

According to the study cite above,

> "Turnover in the welfare population is high. Most families going on welfare leave the program within a few years. While there is substantial movement from welfare to non-welfare status, the latter often being attained as a consequence of re-employment, there also is substantial welfare recidivism. . . . Thus, while there is much short-term success in removing families from delinquency, long-term success is much less likely . . . . As might be expected, variations in length of spells on welfare are associated with differences in family structure and labor market experience. . . . (and in generosity of the welfare program they face). Generosity may take the form of high guarantees, low tax rates, or lenient administration . . . ." (pp. 28-30)

About one-tenth as many "welfare fathers" are on the AFDC-UF rolls as are mothers on AFDC. This program, although offered with federal matching funds, is now in effect in only 24 states. Eligibility is carefully guarded; a father must be totally unemployed for a month after having worked in each of several recent quarters, and until a 1975 U.S. Supreme Court ruling he had to have exhausted UI benefits. A relatively strict work test is imposed and if the father works as much as 100 hours in a month, he loses eligibility. Even taking account of these conditions, it appears that less than half of those categorically eligible for this program and residing in states where it is available are participating in the program. This contrasts with an AFDC participation rate of about 80%.

3. What is the Future Role of Welfare in Pursuit of the Goal of Bringing the Money Income of All Americans Above Stated Poverty Lines?

Poverty will be eliminated in the United States via improvements in pre-transfer incomes and in transfers. In the period 1968 to 1974, there was virtually no improvement in the rate of pre-transfer poverty, which stood at about 20% of the population in both years. Substantial increases in transfer payments contributed to the slow progress that was achieved in terms of post-transfer income poverty. Currently, the controversy about future welfare reform turns around jobs versus cash and in-kind benefits for the poor. Some of the issues in that controversy are briefly discussed below.

In the last ten years, an increasing number of people have questioned the conventional wisdom on categorical eligibility for income maintenance benefits. At one extreme, some have argued for abolition of all existing social insurance and public assistance and in-kind benefit schemes and replacement of them by a single needs-based assistance program or a negative income tax. Others have sought to narrow or widen existing categories or to create new ones.

Much of the controversy about categorization centers on AFDC and the belief that at least some part of its present beneficiaries should be expected to work. Alternatively, Congress could eliminate cash benefits for this category and replace it with extensive public provision of child care services, including care during school vacation periods. However, one should note that such care, according to federally set standards, costs over $2,000 per child per year, and there are equity issues to resolve in deciding who should be eligible for this subsidized service. At present, reimbursement of day care expense is a principal reason for the high break-even points of AFDC, which go as high, in some states, as $10,000 of earnings. Child care costs are also deductible under the income tax.

Rather than narrowing eligibility for AFDC, some want to widen it to include intact families headed by able-bodied men. The federal adoption of AFDC-UF in 1961 was, of course, a step in this direction, and further steps, including mandating it for all states, could be taken. Whether we want to take these steps and thereby impose relatively high disincentives on family heads who are clearly expected to work is not easily answered in the affirmative.

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Any proposal to introduce a new income-conditioned benefit for those expected to work must confront issues of equity and incentive. How high should one set the guarantee, i.e., the benefit at the zero level of other income for each family size? How fast should benefits fall as earnings increase? (This is sometimes referred to as the offset or implicit tax rate. If benefits fall $500 as earnings rise $1,000, the rate is 50%.) The answer to those two questions will determine the break-even point, or the earnings level at which benefits fall to zero. (Hence, if the guarantee is $1,000 and the implicit tax rate is 50%, then the break-even point is $2,000.) Numerous subsidiary questions must be answered, having to do with definition of the family unit, definition of income (earnings, property income, transfer benefits), and the accounting period (should it be a month, as in AFDC, or a year, as in the income tax?).

Much research effort has gone into the question of how responsive work effort would be to various levels of guarantee and of tax rate. The first experimental inquiry into this question was the so-called New Jersey study, which placed a sample of families headed by working-age men on a variety of negative income tax plans and compared their changes in hours of work over a three-year period with changes observed in a control group. The leading findings of that study was that in the experimental families, considered as a group, male family heads reduced hours worked by 6%, and wives, by 30%. A conservative reading of the experiment is that it gives tentative support to the idea that work reductions are not likely to be very great among male family heads under a negative income tax with a moderate guarantee and a moderate tax rate. Hence, supporters of the NIT for male-headed families find the outcomes of the experiment to their liking.

To keep the implicit tax rate down for beneficiaries of a negative income tax turns out to be more difficult than might at first be imagined. For one thing, the tax rate in the benefit structure combines with tax rates in the social security payroll tax and in the income tax. Further, these rates combine with or add to the rate at which benefits fall in the several income-conditioned in-kind transfers. The latter include food stamps, medicaid, public housing, rent allowances, child dey care, legal services, and basic opportunity grants for higher education. (It should be noted that higher income families often benefit from income tax provisions dealing with expenditures on that list.) Hence, some account must be taken of the possibility that an NIT recipient facing an NIT rate of 50% might simultaneously receive several of these benefits (as some AFDC families now do) and experience a combined marginal tax rate on earnings in the range of 100%. This possibility can be minimized by cashing out some of the in-kind benefits and incorporating them in the NIT guarantee, and by counting some of the benefits, e.g., housing benefits, as income, and thereby discouraging their use, and by converting some of the benefits, e.g., medicaid, to universally available or non-income-conditioned benefits.

These in-kind transfers have made a notable contribution to the reduction of poverty, but one that is not observed in the conventional way of measuring income poverty. Outlays for medicaid, food stamps, and housing—which might be called "welfare in-kind"—now exceed welfare cash benefits. If we count these benefits as being as good as cash, then it can be said that the poverty-income gap in 1974 was less than $15 billion and the frequency of poverty was less than 12 percent. Estimates by the

CBO suggest that the "post in-kind transfer" poverty rate is as low as 8%. Using this concept, the poverty rate fell by 56% between 1965 and 1976, in contrast to the more modest reduction—about 28%--when the money income concept is employed (CBO, 1977).

Clearly, further expansion of in-kind benefits is an option in planning to reduce poverty. Setting national minimums for medicaid and developing a full-blown rent allowance program would be steps which Congress could take in this direction. But there is a third alternative, namely, job creation for the poor, which seems to be equally popular.

It is sometimes suggested that public service employment (PSE) is a direct alternative to a cash benefit reform of welfare. It is true that PSE offers income without imposing an implicit tax rate on its beneficiaries. In that sense it is rivalrous with the negative income tax approach. However, it is more accurate to say that the two approaches are complements, rather than alternatives, since they are directed to quite different purposes.

The special problem to which income maintenance reform is directed is the inadequacy of income support now offered for some of the low-income persons in households other than those headed by a mother. The low income in the target cases arises out of short- and long-term unemployment, and also out of the low wage rates of some who are usually employed. PSE may not reach many of those in this NIT target group. However, a full-blown PSE plan would overlap the target groups of the larger income maintenance system. Thus, sheltered workshops would provide an alternative for some now drawing disability benefits; and transitional work experience for the "hard-to-employ" would attract some volunteers or selectees off the NIT rolls. But these two phases of PSE, which are concerned more with therapy and training than with income maintenance, are unlikely to include many of the large pool of income maintenance beneficiaries.

A third phase of PSE aims at providing temporary jobs to the cyclically and structurally unemployed. In some versions, this phase of PSE is better compared to alternative macroeconomic policies aimed at simply increasing the overall demand for labor than to income maintenance aimed at selected categories, all members of which are entitled to even-handed treatment. In other versions, PSE is seen as a variant of revenue sharing. Suppose we now had in place a PSE program funded to provide a million temporary jobs for the cyclically unemployed? What income maintenance programs could we then abolish? The answer to that is doubtless the same as the answer to the question: What changes would we make in income maintenance institutions if unemployment fell from, say, 8 million to 7 million persons? Obviously, a great deal would be left for income maintenance to do even if we had such a plan to provide a million jobs. Exactly how much would be left depends on who gets those jobs, whether any now employed are displaced, and whether the job takers would otherwise have claimed income maintenance benefits.

PSE has problems, which are ubiquitous in social welfare expenditures, of equity and incentive. Who should be eligible for--or required to take--PSE jobs? Should the emphasis be upon those who have the greatest need or those who can make the greatest contribution to output? Should priorities be set to assure that some of the jobs go to long-term unemployed, veterans, minority group members, youthful workers, women, and those in other categories? Then there is the issue of wages. Should they be higher than welfare benefits to attract people off the welfare rolls, or lower than the minimum wage to avoid diverting workers out of the private sector? What about the work to be done? If it is socially valuable work, can it be turned off when the recession abates? If it is not socially valuable, will morale of the workers suffer? Finally, to what standards of achievement are managers of PSE to be held?

The future role of what is traditionally called welfare will depend on changes in the economy and in the social order. It will also depend on decisions made concerning the relative importance of cash and in-kind benefits and job creation for the poor. But it does seem likely that we will always rely on welfare—or a near substitute for it—in the long struggle against poverty. It is important, therefore, that welfare programs be designed and administered in an efficient and equitable manner.

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Mr. **Fountain.** Our next witness, Dr. Rivlin, as the members know, is the very able Director of the Congressional Budget Office—our counterpart to the Office of Management and Budget.

We are very pleased to have you with us, Dr. Rivlin, and we will be pleased to hear from you at this time.

STATEMENT OF DR. ALICE M. RIVLIN, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Dr. **Rivlin.** Thank you very much, Mr. Chairman. I was asked to discuss the measurement of poverty, and I am happy to do so.

With welfare reform becoming an issue of increasing legislative importance, it is appropriate that the Congress review the official definition of poverty and the problems associated with that definition.

My remarks this morning will be limited to three areas: The instruments used to measure poverty; the usefulness and limitations of current definitions of poverty and income; and the reduction of poverty that can be credited to the current income-transfer system.

INSTRUMENTS OF MEASUREMENT

Three Government survey instruments—the decennial census, the current population surveys (CPS), and special surveys such as the recent survey of income and education (SIE)—are used to collect data on families and persons for the purposes of estimating what proportion of the population is poor. Each of these instruments has its strengths and weaknesses, and each provides slightly different estimates of the extent of poverty.

The decennial census of population and housing surveys all households and, therefore, provides reliable poverty counts for States, counties, and other, smaller geographic areas. Such information is essential if one is interested in the geographic distribution of poverty or in using poverty counts to allocate Federal grants among States and local governments. On the other side of the balance sheet, however, the decennial census is an extremely expensive, complex, and time-consuming method of gathering poverty statistics. Moreover, infrequency, undercounting in the enumeration, the inexperience of interviewers, and the use of self-reporting, that is, census subjects reporting data about themselves, may make the information less accurate than information collected by other means. The 1970 census showed that 27.1 million persons—or 16.9 percent of all families—were living in poverty in 1969.

The March current population survey asks a sample of about 55,000 households detailed questions concerning family income for the previous year. From this information, the Bureau of the Census is able to estimate annually national and regional poverty counts. The current population survey information is cheaper to collect and more timely than that of the decennial census. It is also probably more accurate because it is collected by a highly trained team of interviewers. Its major drawback is that it does not provide State- or sub-State-level information. But it does provide valuable information on poverty trends in the Nation as a whole and by region.

With the passage of time, the 1970 decennial census has become a less accurate source of State and local level poverty information. In

1974, the need for such information to allocate money for programs such as title I of the Elementary and Secondary Education Act prompted the Congress to mandate a special survey. This survey of income and education, which collected information from a sample of approximately 160,000 households, was conducted between April and July 1976. The survey of income and education shares many of the strengths of the current population survey; in addition, it provides State-level information. Its chief drawback is that, because the CPS is not recurrent, one cannot know how to reconcile the differences between the SIE and the CPS.

A final report on the survey's findings should be available to the Congress next month. Preliminary counts from this one-time survey show a decline in overall poverty since 1970, an increase in the number of poor children in the Northeast, north-central region and the West, and a decline in the number of poor children in the South.

[Table follows:]

TABLE 1. NUMBER, PERCENT DISTRIBUTION, AND POVERTY RATES OF POOR CHILDREN 5 TO 17 YEARS OLD IN FAMILIES, BY STATE: 1970 CENSUS AND SIE

Divisions, Regions, and States	Poor children 5 to 17 years old				Percent of United States poor		Poverty rate	
	1970 Census		SIE					
	Number	Standard error	Number	Standard error	1970 Census	SIE	1970 Census	SIE
UNITED STATES, TOTAL..	7,700,368	9,799	*7,132,000	123,800	100.00	100.00	14.8	14.5
NORTHEAST.......	1,247,028	3,797	1,330,110	52,083	16.21	*18.64	10.5	*12.0
New England..........	260,121	1,734	283,270	14,693	3.38	* 3.96	9.9	*10.1
Maine.............	36,308	636	38,690	3,653	0.47	0.54	14.2	15.3
New Hampshire......	14,286	402	* 20,310	1,704	0.19	* 0.28	7.7	*10.3
Vermont...........	13,062	383	* 20,020	1,545	0.17	* 0.28	11.4	*17.9
Massachusetts......	116,900	1,151	123,540	12,250	1.52	1.73	9.4	9.3
Rhode Island........	24,482	525	21,520	2,155	0.32	0.30	11.0	10.5
Connecticut.........	55,083	790	59,190	5,675	0.72	0.83	7.2	8.4
Middle Atlantic.......	986,907	3,378	1,046,840	50,553	12.82	*14.68	11.0	12.7
New York...........	526,402	2,810	524,020	42,785	6.84	7.35	12.2	13.1
New Jersey.........	155,690	1,323	193,800	15,007	2.02	* 2.72	8.7	*11.6
Pennsylvania........	304,815	1,852	329,020	25,514	3.96	4.61	10.6	12.6
NORTH CENTRAL.....	1,539,350	4,218	1,576,880	46,444	20.00	*22.12	10.4	11.6
East North Central....	1,023,717	3,440	*1,160,900	42,257	13.29	*16.28	9.7	*12.0
Ohio..............	273,542	1,757	293,650	23,233	3.55	4.12	9.8	11.6
Indiana............	123,484	1,182	120,440	11,218	1.60	1.69	9.0	9.5
Illinois............	302,311	1,845	* 389,150	27,314	3.93	* 5.46	10.7	*15.1
Michigan...........	220,485	1,581	251,710	19,549	2.86	* 3.53	9.1	*11.3
Wisconsin..........	103,895	1,081	105,950	10,494	1.35	1.49	8.7	9.4
West North Central....	515,633	2,441	* 415,980	19,732	6.71	* 5.83	12.1	*10.7
Minnesota..........	98,935	1,056	87,340	9,162	1.28	1.22	9.5	9.1
Iowa..............	72,000	901	* 53,270	5,735	0.94	* 0.75	9.8	* 7.9
Missouri...........	172,955	1,382	157,040	15,870	2.25	2.20	14.8	14.7
North Dakota.......	27,354	550	* 17,820	2,059	0.36	* 0.25	15.7	*11.5
South Dakota.......	33,815	609	* 21,660	2,959	0.44	* 0.30	18.3	*13.1
Nebraska..........	45,952	717	36,100	4,004	0.60	0.51	12.0	10.1
Kansas............	64,621	852	* 42,750	5,184	0.84	* 0.60	11.5	* 8.6
SOUTH.........	3,815,961	6,642	*3,095,210	75,623	49.55	*43.40	23.5	*19.6
South Atlantic........	1,605,205	4,308	*1,397,030	52,723	20.85	*19.59	20.7	*15.2
Delaware..........	17,372	441	14,300	1,607	0.23	0.20	12.0	10.4
Maryland..........	116,951	1,149	104,150	10,954	1.52	1.46	11.5	10.7
District of Columbia..........	37,193	639	* 22,740	2,738	0.48	* 0.32	23.2	*15.7
Virginia...........	214,357	1,530	* 155,750	17,012	2.78	* 2.18	18.2	*13.7
West Virginia......	106,359	1,073	* 76,020	7,455	1.38	* 1.07	24.3	*18.9
North Carolina.....	312,545	1,549	* 221,210	24,445	4.06	* 3.10	24.0	*17.8
South Carolina.....	206,985	1,476	165,700	14,510	2.69	2.32	29.1	*23.9
Georgia...........	293,871	1,771	254,660	25,543	3.82	3.57	24.4	21.3
Florida............	299,575	1,812	382,550	33,000	3.89	* 5.36	18.9	21.6
East South Central....	987,444	3,379	* 695,460	32,529	12.82	* 9.75	23.3	*21.7
Kentucky..........	208,462	1,495	170,230	16,497	2.71	2.39	25.1	21.4
Tennessee.........	245,157	1,629	195,680	19,346	3.18	2.74	24.8	*20.5
Alabama...........	272,146	1,710	* 136,210	15,673	3.53	* 1.91	29.5	*15.9
Mississippi........	261,679	1,635	* 194,340	13,840	3.40	* 2.72	41.5	*32.6
West South Central...	1,223,309	3,761	*1,004,670	42,777	15.88	*14.09	23.9	*20.3
Arkansas..........	155,135	1,284	* 106,050	10,259	2.01	* 1.49	31.6	*21.4
Louisiana..........	308,850	1,812	* 219,900	18,593	4.01	* 3.08	30.1	*22.9
Oklahoma..........	122,548	1,158	* 86,990	10,213	1.59	* 1.22	19.5	*14.6
Texas.............	636,776	2,637	591,720	37,255	8.27	8.30	21.5	20.5
WEST........	1,098,029	3,761	1,126,320	94,039	14.26	*15.80	12.4	12.9
Mountain.............	336,281	1,972	328,530	13,314	4.37	4.61	14.7	13.8
Montana...........	24,998	528	22,760	2,079	0.32	0.32	12.9	12.5
Idaho.............	23,716	514	22,530	1,690	0.31	0.32	12.0	11.0
Wyoming...........	10,054	335	7,740	765	0.13	0.11	11.2	* 8.6
Colorado..........	71,254	893	64,090	7,632	0.93	0.90	12.3	10.7
New Mexico........	80,559	924	77,940	5,530	1.05	1.09	25.3	25.0
Arizona...........	84,014	960	92,430	8,745	1.09	1.30	17.5	16.8
Utah..............	30,796	588	25,270	2,724	0.40	0.35	10.0	* 8.0
Nevada............	10,890	351	* 15,770	1,359	0.14	* 0.22	8.8	*11.0
Pacific..............	761,748	2,957	797,790	50,414	9.89	11.19	11.6	12.6
Washington........	80,172	949	81,290	8,245	1.04	1.14	9.3	10.0
Oregon............	53,953	779	42,760	4,653	0.70	0.60	10.3	* 8.4
California........	595,765	2,556	648,050	52,570	7.74	9.09	12.1	13.8
Alaska............	12,393	370	* 6,150	952	0.16	* 0.09	14.6	* 6.4
Hawaii............	19,465	468	19,540	2,131	0.25	0.27	9.7	9.6

*An asterisk (*) preceding the SIE data indicates statistically significant change at the 95 percent confidence level from the 1970 census data.

SOURCE: Preliminary tabulations of the Survey of Income and Education, Bureau of the Census.

Dr. RIVLIN. The survey of income and education found that there were 24 million poor people in 1975—about 7 percent fewer than the number estimated from the March current population survey in the same year. While these estimates are significantly different, the Census Bureau used the same definition of poverty when it conducted the SIE and the March 1976 CPS. What was changed was the survey instrument and the size of the sample. Using the same definitions, different poverty counts can arise because of normal sampling variability, the number of income questions asked, the amount of training and general experience of enumerators, the mode of collection of the data—whether personal interview, telephone, or mail—the length and timing of the interview, and the extent of respondents' awareness of the survey's objectives.

With the survey instruments in mind, let me now turn to the definitions of poverty and income that are used in conjunction with the surveys to count the poor.

DEFINITION OF POVERTY AND INCOME

There are many difficult conceptual and practical problems in defining poverty and measuring income.[1] While the poverty threshold could be set at the minimal amount of income needed for physical survival, this, in a developed society such as the United States, would not be very useful.

Other definitions of poverty are necessarily arbitrary. There is no "correct" poverty measure. Nevertheless, an official poverty series is essential if we are going to gage our success in helping the poor over time. For this purpose, it is important that the definition of poverty be consistent over time.

The poverty measure used in official statistics was developed in 1965. The original poverty definition was derived in three steps. First, the amount of income required for food for families of different sizes and compositions was defined to be the cost of the economy food plan developed by the U.S. Department of Agriculture, based on minimal nutritional needs. Second, based on 1955 studies of family budgets—which revealed that about one-third of a family's post-tax cash income went toward food—the poverty thresholds or incomes were established at three times the economy food plan. Finally, the definition was adjusted for whether or not the family lived on a farm. Since 1969, the poverty thresholds have been adjusted for annual changes in the Consumer Price Index. Before that date, they were adjusted for changes in the per capita price of the economy food plan, which was then multiplied by three.

The current definition of poverty has been criticized for a number of reasons. First, because over time it has been adjusted for inflation only, the poverty threshold remains fixed in real terms while family incomes have tended to rise faster than prices. Thus, the income of a family at the poverty line has dropped farther and farther behind the median family income. Some persons therefore feel that the current measure is inadequate and should be based on a relative income concept, such as a fixed percent of mean or median family income, or set at the income of families at a specific percentile of the income distribution—for example, the 20th percentile family.

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[1] These problems are discussed in "The Measure of Poverty," a report recently published by the U.S. Department of Health, Education, and Welfare.

Second, others have said that the current approach for determining the poverty levels is not wrong, but that the absolute levels are simply too low. They suggest higher levels should be selected, such as the Bureau of Labor Statistics' Lower Family Budget, or a level four or five times the economy food plan rather than just three, or some multiple of the current threshold. The recent survey of consumer expenditures, which indicates that food takes up about one-fifth of the average family budget rather than the one-third figure used in the construction of the original poverty thresholds, gives some support to such a position.

Third, there are those who would want the poverty definition to be based on the value of a specific market basket of goods and services, not just food needs, as is currently done by making the poverty threshold a multiple of the economy food plan. Unfortunately there are no uniform standards for nonfood needs such as housing, clothing, transportation, and health.

Finally, others feel that the benchmark should be adjusted to reflect cost-of-living differentials by regions, as well as by urban, suburban, and rural areas. While it is generally recognized that there are regional variations in the cost of living, many conceptual issues and limitations in the current data must be resolved before variations can be adequately reflected in measures of need.

There is also considerable debate regarding the definition of income to be used to determine family poverty status. The income concept used in the poverty statistics is the Bureau of the Census' concept of money income before taxes, which includes nontransfer income such as wages and salaries, rents, interests, and dividends, as well as Government cash transfer payments such as social security, Government pensions and public assistance. This concept does not reflect all the resources available for family consumption.

The census definition ignores in-kind transfers, both public and private. Furthermore, taxes are not taken out. If in-kind transfers were counted as incomes, fewer families would be counted as poor. On the other hand, if taxes were excluded from income—as they should be if one wants a measure of the resources available for current consumption—additional families would be counted among the poor. Thus, some would argue that to assess effectively the Government's role in helping the poor, a more comprehensive income definition is needed that counts public in-kind transfers and excludes taxes.

IMPACT OF THE CURRENT INCOME-TRANSFER SYSTEM

In two recently published reports on welfare and poverty, the Congressional Budget Office looked at alternative ways of assessing the impact of Government programs on the poor. I would be happy to provide both those reports to the subcommittee for insertion in the record, if you so desire.

Mr. FOUNTAIN. We would appreciate it.

[EDITOR'S NOTE.—The Congressional Budget Office's background papers referred to are entitled: "Poverty Status of Families Under

Alternative Definitions of Income" (June 1977) and "Welfare Reform: Issues, Objectives, and Approaches" (July 1977).]

Dr. RIVLIN. Before receiving Government cash and in-kind transfers, more than one out of every four American families is counted as poor according to the official poverty definition. Some are poor because they have no member who can work or who, given the values of our society, can be expected to work. Included in this group are many families of aged and retired workers, families of disabled or incapacitated workers, and single-parent families in which the potential worker must care for children or other dependents. Nearly 60 percent of those families counted as poor before the intervention of Government transfer programs fall into one of these groups. All of these groups exhibit a high incidence of poverty before transfers are counted. Other families are poor before Government transfer because, while the heads of the families can work, they cannot find full-time employment or jobs paying a high enough wage to lift the family out of poverty. For example, 36 percent of those unemployed at some time during the year would be counted as poor without Government assistance.

[Table follows:]

TABLE 2. PRE-TRANSFER POVERTY BY TYPE OF FAMILY AND GEOGRAPHICAL REGION IN FISCAL YEAR 1976

Characteristics of Family	Percent of Families That Are Poor Before Transfers	Distribution of All Pre-Transfer Poor Families by Family Characteristics (Percent)
All Families	27.0	100.0
Age of Head		
Over 65	59.9	45.0
Under 65	18.6	55.0
Family Type		
Female Head with Children	55.4	14.1
Other	24.9	85.9
Health Status of Head		
Disabled	57.2	13.9
Non-disabled	24.9	86.1
Employment Status of Head		
Working Full Time	5.3	10.5
Unemployed	35.8	15.9
Not in Labor Force	58.1	73.6
Race		
White	24.7	80.8
Nonwhite	43.8	19.2
Region of Residence		
South	30.8	36.7
West	26.2	18.3
Northeast	26.4	22.2
North Central	23.3	22.8

SOURCE: Congressional Budget Office.

Dr. RIVLIN. The Government system of insurance transfers consists of two components—social insurance and welfare programs. These programs distributed more than $183 billion in benefits in fiscal year 1976. Social insurance programs, such as medicare, unemployment insurance, social security, and other Government retirement programs accounted for $141 billion, or at least the better part of that sum. Benefits from these programs are generally not subject to a means test and, therefore, provide transfers to the nonpoor as well as the poor.

Welfare programs condition benefits on a test of need. Eligibility usually depends on a family's current lack of income, its composition, and its wealth—that is, its assets—and not on any prior tax payments or contributions. The major cash programs in this category are aid to families with dependent children, supplemental security income, and veterans' pensions. The major forms of in-kind assistance to the poor are food stamps, medicaid, and housing assistance programs. In fiscal year 1976, welfare programs accounted for nearly $42 billion—or about 23 percent of all Government income-transfer spending.

Overall, the various income-transfer programs do much to raise the income of the poor. The CBO estimated that 21.4 million families—or 27 percent of all families—were in poverty in fiscal year 1976 before public transfer payments. Social insurance benefits—exclusive of medicare—lowered the number of families in poverty to 12.5 million, or 15.7 percent of all families.

[Table follows:]

TABLE 3. NUMBER AND PERCENT OF FAMILIES BELOW 100 AND 150 PERCENT OF POVERTY UNDER ALTERNATIVE DEFINITIONS OF INCOME IN FISCAL YEAR 1976: FAMILIES IN THOUSANDS a/

	Pre-Tax Pre-Transfer Income	Pre-Tax Post-Social Insurance Income	Pre-Tax Post-Welfare Transfer Income	Pre-Tax Post-Medical Benefits	Post-Tax Post-Total Transfer Income b/ I	Post-Tax Post-Total Transfer Income b/ II
Number of Families Below 100% of Poverty	21,436	12,454	8,978	6,441	9,165	6,597
Percent of all Families	27.0	15.7	11.3	8.1	11.5	8.3
Number of Families Below 150% of Poverty	27,164	19,546	17,958	14,317	19,284	15,535
Percent of all Families	34.2	24.6	22.6	18.0	24.3	19.5

SOURCE: Congressional Budget Office.

a/ Families are defined to include unrelated individuals as one-person families.

b/ Column I excludes medicare and medicaid benefits received by families participating in these programs; Column II includes medicare and medicaid benefits.

Dr. RIVLIN. The addition of cash and in-kind welfare benefits—again, exclusive of medicaid—reduced the number of families counted as poor to 9 million, or 11.3 percent of all families. Here, in-kind benefits—such as food stamps and housing assistance—are included in family income at their full cost to the Government.

The valuation of in-kind benefits to a family receiving them may, of course, be less than the cost to the Government. Some analysts would therefore question the inclusion of the Government's value of these benefits in the definition of family income.

If medicare and medicaid benefits are also counted as income—at their full cost to the Government—the number of poor families drops further to 6.4 million, or 8.1 percent of the total. Since current poverty levels are based on normal health expenditures, which may be small for the poor, adding medicare and medicaid benefits to family income might be criticized, since it implies that a family can be made nonpoor by incurring large health costs. But receipt of benefits from these programs does provide some health services that the low-income family would have purchased out of its limited income. So completely excluding them would understate increased resources to the low-income family.

Some nonpoor families would be counted as poor if taxes were subtracted from their incomes. These taxes, which for the low-income population are primarily payroll taxes, cause the post-tax/post-transfer poverty count to rise slightly—to 9.2 million, or roughly 11.5 percent of all families. Overall, when medicare and medicaid benefits are not counted, there is about a 57-percent reduction in the incidence of poverty resulting from the Government income-transfer and tax system.

As I noted earlier, one alternative poverty measure is some multiple of the current benchmark. For example, more than one-third of all families were below the level of 150 percent of the poverty line on the basis of their pretransfer income in fiscal year 1976. After taxes and all transfers—except medical benefits—about one-fourth of all families fell below the level of 150 percent of poverty—a 30-percent reduction from the pretransfer count.

The income-transfer programs have different effects on different types of low-income families. The current system provides fairly significant benefits to those families with heads who cannot work or who are generally not expected to work—the aged, the disabled, and mothers with dependent children. The system does less well for intact families and the working poor. This can be seen in table 4.

[Table follows:]

TABLE 4. IMPACT OF TRANSFER PROGRAMS ON THE INCIDENCE OF POVERTY BY TYPE OF FAMILY IN FISCAL YEAR 1976: PERCENT OF FAMILIES

Characteristics of Family	Pre-Tax Pre-Transfer Income	Pre-Tax Post-Social Insurance Income	Pre-Tax Post-Welfare Transfer Income	Pre-Tax Post-Medical Benefits	Post-Tax Post-Total Transfer Income a/ I	II
ALL FAMILIES	27.0	15.7	11.3	8.1	11.5	8.3
Age of Head						
Under 65	18.6	14.2	10.6	8.6	10.9	8.9
65 and Over	59.9	21.5	14.1	6.1	14.1	6.1
Sex of Head b/						
Male	14.0	6.0	4.3	3.4	4.4	3.5
Female	46.7	36.7	18.2	10.4	18.2	10.4
Race						
White	24.7	13.3	9.8	7.1	10.0	7.3
Nonwhite	43.8	33.6	22.7	15.9	23.0	16.1
Working Status c/						
Full-Time	5.3	3.9	2.8	2.6	3.0	2.8
Non-Working	52.3	29.4	21.2	14.5	21.5	14.7
Region						
South	30.8	19.5	15.4	11.9	15.6	12.1
West	26.2	15.6	10.4	8.0	10.6	8.2
Northeast	26.4	14.0	9.0	5.6	9.2	5.7
North Central	23.3	12.5	9.0	5.7	9.2	5.9

SOURCE: Congressional Budget Office.

a/ Column I excludes medicare and medicaid benefits received by families participating in those programs; Column II includes medicare and medicaid.

b/ Excludes single unrelated individuals.

c/ Defines full-time as working 50 weeks a year or more; defines non-working as less than 50 weeks during the year or not in labor force.

Dr. Rivlin. In summary, 60 percent of the families headed by a person 65 years or older had pretransfer incomes below the poverty level in fiscal year 1976. But after taxes and transfers, poverty in this group was reduced to 14 percent.

The incidence of poverty for families headed by females is reduced significantly under the current system but remains high relative to that of the population as a whole.

Although the pretransfer incidence of poverty is greater for nonwhites than for whites, the relative impact of transfer payments in alleviating poverty is greater for whites.

The incidence of pretransfer poverty among those families whose head worked more than 50 weeks in the year was 4.6 percent. The current transfer system removes about 45 percent of these families from poverty, primarily through the social insurance programs.

The southern region of the country suffers the highest incidence of poverty, both on a pretransfer basis and after transfers.

CONCLUSIONS

Measuring poverty is not an absolute science and presents difficulties for both analysts and policymakers. Not only is there variability in the survey instruments, as noted in the March 1975 current population survey and the survey on income and education which used the same poverty definitions, but there is also great uncertainty as to the appropriate definitions of income and poverty used to count the poor. The instruments used to measure, and the somewhat arbitrary lines developed as benchmarks, cannot detract from a very real fact that without Government transfers, 1 out of every 4 American families would be poor—a situation that has not changed dramatically over the decade since the war on poverty began. For many of these families, the transfer programs, including in-kind assistance, have mitigated the effects of poverty but have not eliminated the problem.

Mr. FOUNTAIN. Thank you very much, Dr. Rivlin.

Do we treat "poor" and "poverty" as synonymous?

Dr. RIVLIN. Yes; when I talk about defining "poverty" or talk about the "poor population" or the "population in poverty," I use them as synonymous.

Mr. FOUNTAIN. Your complete statement, Dr. Rivlin, will also be made a part of the record.

[Dr. Rivlin's curriculum vitae and prepared statement follow:]

ALICE MITCHELL RIVLIN

Alice M. Rivlin is the first Director of the newly established Congressional Budget Office. She is an economist, a former Senior Fellow at The Brookings Institution and has served as Assistant Secretary of Health, Education, and Welfare. She has written extensively on the federal budget, the economy, social experimentation, the distribution of income, the economy, the economics of health and education, and improving public decision-making.

Born in Philadelphia in 1931, Mrs. Rivlin grew up in Bloomington, Indiana. She graduated from Bryn Mawr College in 1952 and received her doctorate in economics from Radcliffe College in 1958.

Mrs. Rivlin first came to The Brookings Institution in 1957 and became a Senior Fellow in 1963. During this period she wrote *The Role of the Federal Government in Financing Higher Education* and co-authored several economic and demographic studies.

From 1966 to 1969 Mrs. Rivlin played a major role in implementing the planning, programming, budgeting system (PPBS) in the Department of Health, Education, and Welfare and in bringing economic analysis to bear on departmental decisions. During this period she chaired a committee on higher education policy (*Toward a Long-Range Plan for Federal Financial Support for Higher Education*) and served as co-chairman of a panel on social indicators (*Toward a Social Report*).

When she returned to Brookings in 1969, Mrs. Rivlin continued to work on federal budget choices, social experimentation, and the distribution of income. She is a co-author of three Brookings volumes on the federal budget entitled *Setting National Priorities* and in 1971 wrote *Systematic Thinking for Social Action*, based on the H. Rowan Gaither Lectures in Systems Science delivered at the University of California, Berkeley. The University of Michigan has awarded Mrs. Rivlin its W. S. Woytinsky Lectureship Award for her book and the American Political Science Association, its Gladys M. Kammerer Award. She also served as chairman of the Brookings Panel on Social Experimentation.

Upon the recommendation of the House and Senate Budget Committees, Mrs. Rivlin was appointed on February 24, 1975, to a four-year term as Director of the Congressional Budget Office by the Speaker of the House of Representatives and the President pro tempore of the Senate.

PREPARED STATEMENT OF DR. ALICE M. RIVLIN, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

MEASURING POVERTY

I am happy to be with you today to discuss measurements of poverty. With welfare reform becoming an issue of increasing legislative importance, it is appropriate that the Congress review the official definition of poverty and the problems associated with that definition. My remarks this morning will be limited to three areas: (1) the instruments used to measure poverty; (2) the usefulness and limitations of the current definition of poverty and income; and (3) the reduction of poverty that can be credited to the current income-transfer system.

THE INSTRUMENTS OF MEASUREMENT.

Three government survey instruments, the Decennial Censuses, the Current Population Surveys (CPS), and special surveys such as the recent Survey of Income and Education (SIE) are used to collect data on families and persons for the purposes of estimating the proportion of the population that is poor. Each of these instruments has its strengths and weaknesses and each provides slightly different estimates of the extent of poverty.

The Decennial Census of Population and Housing surveys all households and, therefore, provides reliable poverty counts for states, counties, and other smaller geographic areas. Such information is essential if one is interested in the geographic distribution of poverty or in using poverty counts to allocate federal grants among states and local governments. On the other side of the balance sheet, the Decennial Census is an extremely expensive, complex, time-consuming, and infrequent method of gathering poverty statistics. Moreover, underenumeration, inexperienced interviewers, and the use of self-reporting may make the information less accurate than that collected by other instruments. The 1970 Census showed that 27.1 million persons (16.9 percent of all families) were living in poverty in 1969.

The March Current Population Survey (CPS) asks a sample of about 55,000 households detailed questions concerning family income for the previous year. From this information the Bureau of the Census is able to estimate annually national and regional poverty counts. The CPS information is cheaper to collect and more timely than that of the Decennial Census; it is also probably more accurate because it is collected by a highly trained team of interviewers. Its major drawback is that it does not provide state- or substate-level information. But it does provide valuable information on the poverty trend in the nation as a whole.

With the passage of time the 1970 Decennial Census has become a less accurate source of state- and local-level poverty information. The need for such information to allocate money for programs such as Title I of the Elementary and Secondary Education Act prompted the Congress in 1974 to mandate a special survey. This Survey of Income and Education (SIE), which collected information from a sample of approximately 160,000 households, was conducted between April and July 1976. The SIE shares many of the strengths of the CPS and in addition provides state-level information; its chief drawback is that, because of its nonrecurrent nature, it is difficult to know how to reconcile the differences between the SIE and the CPS.

A final report on the survey's findings should be available to the Congress next month. Preliminary counts from this one-time survey show a decline in overall poverty since 1970, an increase in the number of poor children in the Northeast, North Central and West, and a decline in the number of poor children in the South (see Table 1). The SIE found that there were 24.0 million poor people in 1975 -- about 7 percent fewer than the number estimated from the March CPS for the same year. While these estimates are significantly different the Census Bureau used the same definition of poverty when it conducted the SIE and the March 1976 CPS; what was changed was the survey instrument and the sample size. Using the same definitions, different poverty counts can arise because of normal sampling variability, the number of income questions asked, the amount of training and general experience of enumerators, the mode of collection of the data (personal interview, telephone, or mail), the length and timing of the interview, and the extent of the respondent's awareness of the survey's objectives.

With the survey instruments in mind, let me now turn to the definitions of poverty and income that are used in conjunction with the surveys to count the poor.

DEFINITION OF POVERTY AND INCOME

There are many difficult conceptual and practical problems in defining poverty and measuring income. 1/ While the poverty threshold could be set at the minimal amount of income needed for physical survival, in a developed society like the United States this would not be very useful. Other definitions of poverty are necessarily arbitrary; there is no "correct" poverty

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1/ These problems have been abely discussed in a recent report titled The Measure of Poverty published by the Department of Health, Education, and Welfare.

measure. Nevertheless, an official poverty series is essential if we are to gauge our success in helping the poor over time. For this purpose, it is important that the definition of poverty be consistent over time.

The poverty measure used in official statistics was developed in 1965. The original poverty definition was derived in three steps. First, the amount of income required for food for families of different sizes and compositions was defined to be the cost of the economy food plan developed by the U.S. Department of Agriculture based on minimal nutritional needs. Second, based on 1955 studies of family budgets, which revealed that about one-third of a family's post-tax cash income went towards food, the poverty thresholds or incomes were established at three times the economy food plan. Finally, the definition was adjusted for whether or not the family lived on a farm. Since 1969 the poverty thresholds have been adjusted for annual changes in the consumer price index; prior to that date they were adjusted for changes in the per capita price of the economy food plan.

The current definition of poverty has been criticized for a number of reasons. First, because over time it has been adjusted for inflation only, the poverty threshold remains fixed in real terms while family incomes have tended to rise faster than prices. Thus, the income of a family at the poverty line has dropped farther and farther behind the median family income. Some persons therefore feel that the current measure is inadequate and should be based on a relative income concept, such as a fixed percent of mean or median family income or set at the income of families at a specific percentile of the income distribution (for example, the twentieth percentile family).

Second, others have said that the current approach for determining the poverty levels is not wrong, but that the absolute levels are just too low. They suggest higher levels should be selected, such as the Bureau of Labor Statistics' Lower Family Budget, or a level four or five times the economy food plan (rather than just three), or some multiple of the current threshold. The recent Survey of Consumer Expenditures, which indicates that food takes up about one-fifth of the average family budget rather than the one-third figure used in the construction of the original poverty thresholds, gives some support to such a position.

Third, there are those who would want the poverty definition to be based on a specific market basket of goods and services, not just food needs as is currently done by making the poverty threshold a multiple of the economy food plan. Unfortunately, there are no uniform standards for nonfood needs such as housing, clothing, transporation, and health.

Finally, others feel that the benchmark should be adjusted to reflect cost-of-living differentials by regions as well as by urban, suburban, and rural areas. While it is generally recognized that cost-of-living variations exist, many conceptual issues and current data limitations must be resolved before variations can be adequately reflected in measures of need.

There is also considerable debate regarding the definition of income used to determine family poverty status. The income concept used in the poverty statistics is the Bureau of the Census' concept of money income before taxes which includes nontransfer income, such as wages and salaries, rents, interests, and dividends, as well as government cash transfer payments, such as social security, government pensions, and public assistance. This concept does not reflect all of the resources available for family consumption.

The Census definition ignores in-kind transfers, both public and private. Furthermore, taxes are not taken out. If in-kind transfers were counted as income, fewer families would be counted as poor. On the other hand, if taxes were excluded from income -- as they should be if one wanted a measure of the resources available for current consumption -- additional families would be counted among the poor. Thus, some would argue that to assess effectively the government's role in helping the poor a more comprehensive income definition is needed that counts public in-kind transfers and excludes taxes.

IMPACT OF THE CURRENT INCOME TRANSFER SYSTEM

Several recent Congressional Budget Office reports on welfare and poverty looked at alternative ways of assessing the impact of government programs on the poor. I would like to submit copies of these reports for the record, summarize some of the reports' major findings, and make some additional observations on this topic.

Before receiving government cash and in-kind transfers, more than one out of every four American families is poor under the official poverty definition. Some are poor because they contain no member who can work or, given the values of our society, is expected to work. Included in the group are many families of aged and retired workers, families of disabled or incapacitated workers, and single-parent families in which the potential worker cares for children or other dependents. Nearly 60 percent of those families counted as poor before the intervention of government transfer programs (pretransfer) fall into one of these groups; all of these groups exhibit a high incidence of poverty before transfers are counted. Other families are poor before government transfer because, while the heads of the family can work, they cannot find jobs, full-time employment or jobs paying a high enough wage to lift the family out of poverty. For example, 36 percent of those unemployed sometime during the year would be counted as poor without government assistance (see Table 2).

The government system of income transfers consists of two components -- social insurance and welfare programs. These components provided over $183 billion in benefits to persons in fiscal year 1976. Social insurance programs, such as social security, unemployment insurance, medicare, and other government retirement programs accounted for $141 billion. These benefits are generally not subject to a means test and, therefore, provide transfers to the nonpoor as well as the poor.

Welfare programs condition benefits on a test of need. Eligibility usually depends on a family's curent lack of income, its composition, and its wealth, and not on any prior tax payments or contributions. The major cash programs in this category are Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), and veterans' pensions. The major forms of in-kind assistance to the poor are the food stamp, medicaid, and housing assistance programs. In fiscal year 1976, welfare programs accounted for nearly $42 billion, or about 23 percent, of all government income-transfer spending.

Overall, the various income-transfer programs do much to raise the income of the poor. The Congressional Budget Office estimated that 21.4 million families -- 27 percent of all families -- were in poverty in fiscal year 1976 before public transfer payments; social insurance benefits, exclusive of medicare, reduced the number of families in poverty to 12.5 million, or 15.7 percent of all families (see Table 3). The addition of cash and in-kind welfare benefits, exclusive of medicaid, reduced the number of families counted as poor to 9.0 million or 11.3 percent of all families. Here in-kind benefits such as food stamps and housing assistance are included in family income at their full cost to the government. The valuation of in-kind benefits to a family receiving them may be less than the cost to the government. Therefore, some analysts would question the inclusion of the government's value of these benefits in the definition of family income.

If medicare and medicaid benefits are counted as income -- at their full cost to the government -- the number of poor families drops to 6.4 million or 8.1 percent of the total. Since current poverty levels are based on normal health expenditures, which may be small for the poor, adding medicare and medicaid benefits to family income might be criticized since it implies that a family can be made nonpoor by incurring large health costs. But receipt of benefits from these programs does provide some health services that the low-income family would have purchased out of their limited income, so completely excluding them would understate increased resources to the low-income family.

Some non-poor families would be counted as poor if taxes were subtracted from their incomes. These taxes, which for the low-income population are primarily payroll taxes, cause the post-tax/post-transfer poverty count to rise slightly, to 9.2 million, or roughly 11.5 percent of all families. Overall, excluding medicare and medicaid benefits, there is about a 57 percent reduction in the incidence of poverty resulting from the government income-transfer and tax system.

As I noted earlier, one alternative poverty measure is some multiple of the current benchmark. For example, more than one-third of all families were below the level of 150 percent of poverty on the basis of their pretransfer income in fiscal year 1976. After taxes and all transfers except medical benefits, about one-fourth of all families fell below the level of 150 percent of poverty, a 30 percent reduction from the pretransfer count.

The income-transfer programs have different effects on different types of low-income families. The current system provides fairly significant benefits to those families with heads who cannot work or are generally not expected to work — the aged, the disabled, and mothers with dependent children. The system does less well for intact families and the working poor (see Table 4):

- Sixty percent of the families headed by a person 65 or older had pretransfer incomes below the poverty level in fiscal year 1976, but after taxes and transfers, poverty in this group was reduced to 14 percent.

- The incidence of poverty for families headed by females is reduced significantly under the current system but remains high relative to that of the total population.

- Although the pretransfer incidence of poverty is greater for nonwhites (43.8 percent) than for whites (24.7 percent), the relative impact of transfer payments in alleviating poverty is greater for whites.

- The incidence of pretransfer poverty among those families whose head worked more than 50 weeks in the year was 4.6 percent. The current transfer system removes about 45 percent of these families from poverty, primarily through the social insurance programs.

- The southern region of the country suffers the highest incidence of poverty both on a pretransfer basis (30.8 percent) and after transfers (12.1 percent).

Measuring poverty is not an absolute science and presents a number of difficulties for both analysts and policymakers. Not only is there variability in the survey instruments as noted in the March 1975 CPS and the SIE which used the same poverty definitions, but there is also great uncertainty as to the appropriate definitions of income and poverty used to count the poor. The instruments used to measure, and the somewhat arbitrary lines developed as benchmarks, cannot detract from a very real problem that without government transfers one out of every four American families would be poor; a situation which has not changed dramatically over the decade since the War on Poverty began. For many of these families the transfer programs including in-kind assistance have mitigated the effects of poverty but have not eliminated the problem.

Mr. **Fountain**. We will now hear from Dr. Levitan. Dr. Levitan is the director of the Center for Social Policy Studies at George Washington University.

I might also note that President Carter has nominated Dr. Levitan to be a member of the National Commission on Employment and Unemployment Statistics with the intention of naming him, I understand, the Commission's Chairman.

Dr. Levitan, we are delighted to have you with us.

Mr. **Wydler**. Is that a new or an old organization?

STATEMENT OF DR. SAR A. LEVITAN, DIRECTOR, CENTER FOR SOCIAL POLICY STUDIES, GEORGE WASHINGTON UNIVERSITY

Dr. **Levitan**. Mr. Wydler, you have decreed that such a commission be established in a law that you passed in 1976. The President was only fulfilling the law.

Mr. **Wydler**. Then it is a statutory commission?

Dr. **Levitan**. Yes, sir. The President has not appointed a new commission, if that is what you mean.

Mr. **Wydler**. I was wondering because we hear that he is going to try to cut them down.

Dr. **Levitan**. I think the President has to fulfill the law, doesn't he? That law is Public Law 94–444, sir.

Mr. **Fountain**. Quite often, depending on what stage of the session we are in, we may move so fast that we are not all mindful of some of the laws which have been passed.

Dr. **Levitan**. I am sure it is hard to follow all of them. Thank you, Mr. Chairman.

My testimony, Mr. Chairman, is based on a longer study that I prepared recently for the Ford Foundation. With your permission, I would like to summarize briefly my findings and include the study as part of the subcommittee's record.

Mr. **Fountain**. Without objection, that will be included, as will all of the statements and tables submitted and your curriculum vitae.

Dr. **Levitan**. Thank you, Mr. Chairman.

As Mr. Wydler has already indicated, "welfare reform" is a code word for different things for many people. To some people, it means just getting transfer payments; to other people, it means guaranteeing income; to others, it means the elimination of poverty. Mr. Wydler has suggested another definition—that it means "more."

My own appraisal, as far as welfare reform is concerned, is that I would not place it as a high priority item on the congressional agenda at this present time because I think that you gentlemen have much more pressing issues than welfare reform.

I do not believe, contrary to the media sloganeering, that there is a welfare crisis. The fact is that if we look at the numbers receiving AFDC benefits only—as your letter suggested, Mr. Chairman—the growth was largely arrested by 1971 or 1972, and the slight increase in 1974–75 has been the result of the recession. We have, largely, a stabilized AFDC population in numbers, however, not in the population itself. As Dr. Lampman has suggested, there has been a great deal of change in and out of the AFDC population.

The fact is that the welfare problem, as I see it, has been declining. We have arrested the growth in the number of new recipients and the compulsion to expand welfare is no longer as strong as it was 20 years ago when large numbers of people on welfare were in dire need.

There are still lots of people in need and on welfare; but, to a large extent, if you add the in-kind support that we offer to people on welfare—food stamps, medicaid, housing, social services, school lunches, and other things—you will find that most deprivation has been eliminated. Therefore, it is not as pressing a problem as it was 20 years ago.

As Dr. Rivlin and Dr. Lampman have suggested, we have done a great deal in the last dozen years since the Great Society war on poverty got underway to reduce deprivation. On that basis, I am concluding that the welfare crisis is more a creation of the media than a real crisis.

That does not mean there are no problems as far as welfare is concerned. What we have done in many States is to create a dual system making welfare more remunerative than work. This is due to the fact that, despite the high wages that prevail in the United States, lots of people are still subjected to extremely low wages.

According to estimates of the Department of Labor, there were some 16 million people in the United States who were earning less than $3 an hour as of last year. This means that many of them, living on the edge, are likely candidates for welfare. Supporting a family of four at the subsistence level with a $2.50 an hour job is, to many, no better than welfare. With that kind of alternative, continuing on welfare is a very reasonable substitution for working. And that is a very real problem.

Despite the fact that many people opt for welfare rather than for work, the fact is that many people on AFDC are working. About 1 out of 6 people on AFDC is working officially. And in addition to that, many, many more are working but are not counted in the Government's statistics. They supplement their AFDC payments with some earnings without informing the social worker who checks up on whether they are getting additional income.

Mr. **Wydler**. Actually, we had cases in New York City where they were working for the city and were participating in these programs. They were just comparing the computer lists of the municipal workers and the welfare recipients when they found thousands of names that were the same. So the people were working for the city and at the same time collecting these forms of welfare.

Dr. **Levitan**. That, of course, Mr. Wydler, is one of the horrendous stories. But there are lots of people who are doing intermittent work as house maids to supplement their income. And the fact is—if I may suggest the lyrics for you, maybe somebody will write the music—that work and welfare go together in our society today.

But it is also a fact that many people on welfare are not employable. This is not only because welfare is more attractive than work, but because they have physical and mental handicaps, a lack of education and other impediments; or, it is simply because there are no jobs for them, and they, therefore, do not work.

As we have focused during the last decade on reducing the welfare population, starting with the 1967 law, the Congress has tried a number of measures, as have the States, to reduce the AFDC population by getting more recipients jobs.

On the demand side, Congress has, since 1971, given what amounts to a 20-percent tax credit to employers who hire people from welfare rolls. Very few employers have taken advantage of this incentive.

There are a number of reasons for that. The program is not well known; there is a general image that people on welfare are malingerers and don't want to work; and, there are some other biases against welfare recipients. So as a result, according to the latest figures I have, only 25,000 people have been hired in 1976 from welfare rolls for whom employers have claimed additional tax credits.

Another way of trying to reduce AFDC, or—as the not very elegant phrase goes—of "getting them off our back" is to make them work off their AFDC. This was tried in the early 1960's. And it has been tried a number of times within the last 15 years.

With the passage in 1961 of AFDC-UP—in other words, AFDC for unemployed male heads of families—the myth that people on AFDC are not employable had disappeared. The next step was to establish some programs to work off relief.

The general idea was simple. If a person gets $100 in relief or public assistance, and if he is put in a job which pays $4 an hour, then that person would have to work 25 hours in order to work off that relief.

The program has not worked very well and it was, by and large, supplanted by the war on poverty.

It was tried again by several States in the 1970's. Governor Reagan tried it in California. And on the other side of the continent, Governor Rockefeller tried it in New York. The efforts had very limited success.

To succeed, the program requires that there be jobs; it also requires overhead. And since parents are involved, it requires child care and so on. Given the extra costs, these programs have not worked.

What does work? Believe it or not, the system we now have.

The AFDC situation is not as critical as some think, and I am not certain that we should attempt any major changes. But that does not mean we do nothing. There is at least one thing to do, that is to create jobs. We can create jobs for people on welfare; and, by giving them work, some of them will go off welfare. Or, at least, some of them will supplement welfare with work, and, therefore, be productive citizens.

The trouble with that is that any serious welfare reform carries a multibillion dollar downpayment. It is useless to talk about welfare reform, as Mr. Wydler suggested, without talking about additional billions.

We have tried—I am not just theorizing—with the part of welfare that is the easiest to reform. In 1972, we reformed welfare for the aged, blind, and disabled persons with the supplemental security income. Congress raised the level of payments and the number of people on SSI increased, and within 2 or 3 years total real outlays almost doubled. I think it went from $3 billion to $5.7 billion, but I don't have the figures in front of me.

The next step in welfare reform will be no easier. You need a downpayment of billions of dollars just to "reform" welfare. Then, if you want to create additional jobs, that means billions of dollars more.

Of course, the figure depends upon what payments we are going to give them, as was already suggested. If you are going to give prevailing wages, as Congress very frequently does, that means a very costly additional program.

If you are going to follow, let's say, the proposal of Federal Reserve Board Chairman Arthur Burns which would have created a welfare system of guaranteed work paying 10 percent below the minimum wage. In some places where wages are very low, it might be an acceptable substitute for welfare.

In other places, of course, there would be no takers, and it would not help at all.

What I am saying is that if you are going to try to establish many jobs—several hundred thousand jobs for AFDC recipients—you either have to pay very low wages for the cheap model or you have to pay the prevailing wages for the more expensive version. If you pay low wages, the cost will be small. But in some places it will not work unless you coerce people to leave welfare. However, in most cases we find that such harsh treatment is not acceptable and cannot be stomached by the people who administer the programs.

The other alternative of paying the prevailing wages would cost a great deal of money. But if you establish lower than prevailing wages, that would establish a double-tiered system—one for welfare people and one for others. If the Federal Government were to subsidize the low paying jobs, then, obviously, you are inviting municipalities or counties or cities or States to lay off the regular workers and get the Federal Government to subsidize the lower wages.

I don't think that is realistic—at least for the 95th Congress.

If you were to establish the prevailing rate, it might still be a good buy. If you establish a $6,000 or $7,000 or $8,000 job for a woman or a man on welfare who has a family with two or three dependents and if that family gets off welfare, then society might still be the gainer because we will get some services from these people rather than just providing them with income. Also, although I cannot prove it, I believe that the family itself would be much better situated if the head of the family were at work. That, I suppose, is the work ethic in me.

So I am concluding that in the absence of a large investment in AFDC, I would, by and large, continue the present system. I am not sure that you folks in Congress have many billions to allocate to AFDC at this time. However, I would also try to cut down on chiselers and try to cut down the numbers of people on AFDC who can find work.

But, realistically, I don't think you can do anything with welfare reform unless you are first ready to offer a downpayment of several billions of dollars to start with and much more in the years ahead.

Thank you, Mr. Chairman.

Mr. FOUNTAIN. I would thank all three of you for your very informative and thought provoking statements. I am sure the members of the subcommittee will want to analyze them further in order to fully appreciate them and their impact.

This subcommittee always manages to bite off big problems—problems for which there seems to be no easy solutions.

But Congress keeps reforming and reforming programs, and I wonder sometimes if we are any better off as a result. That is true in other areas as well as in this field.

I guess we do shift people from one category to another, and perhaps thereby create a more equitable situation. But, as you just pointed out in connection with SSI, quite often it is a much more expensive situation if we are actually going to improve and adequately reform the program.

When the subcommittee took testimony in March from the Commissioner of Labor Statistics in connection with another piece of legislation, he indicated that the rapid growth of the labor market and the existence of continued high unemployment, in the face of a record level of employment, is principally due to the growing proportions of women entering the labor market.

A secondary factor, he said, is the fairly large number of young people looking for their first jobs.

I believe Mr. Shiskin said that at the present time about 47 percent of the women, 20 years and over, are in the labor force, and that this trend is continuing.

In Sweden, he noted, about 95 percent of the women 20 years and older are in the labor force, which may be an indicator of what we can expect in this country at some future time.

Consequently, I think we have to ask, as a practical matter, whether our economy can create jobs fast enough to absorb not only the increasing proportion of women who want to work and the young people just out of school, but also those who are on welfare and/or those who are unemployed because they are viewed as less qualified or less reliable for the jobs available.

I would like to have the views of each of you on this question.

Dr. Levitan, would you respond?

Dr. LEVITAN. Mr. Shiskin was correct, of course. We have been creating, since the recession, an unprecedented number of jobs. Whether we can create more is one of the big debates that we have had over the last few years.

I don't know whether the Government can create directly many more jobs than we have done. I suppose that we could have created another few hundred thousand jobs—maybe as many as a million—in 1974 and 1975 to fight the recession, and I think we would have had less unemployment now if we had done it at that time.

By the way, as far as Sweden is concerned, I think, Mr. Shiskin may have said 55 percent rather than 95 percent. I am speaking from memory, but I think it is closer to 55.

I don't know how many more jobs we can create in the short run. I am sure we can create a few hundred thousand more. The chances are that Congress, next week, will approve a youth employment bill, which will create a few hundred thousand jobs for youngsters. But given the deficit that we have and given the cost of creating jobs, I think that raising the public service employment by an additional 400,000 jobs, as you have already done, brings us close to the limit. Also, the other $4 billion that you allocated for public works is very close to the limit you can reach before prohibitive inflation.

Mr. FOUNTAIN. Dr. Rivlin, do you care to comment?

Dr. RIVLIN. I guess I am a little more optimistic than Dr. Levitan. It is certainly true that the economy has been climbing slowly out of a very deep recession. We are in the third year of recovery from the deepest recession in the postwar period. And climbing back up that slope has been made more difficult by the fact that the labor force is increasing at a rapid rate.

This is from two primary sources. One is a continued, steady increase in the proportion of women seeking employment. It hasn't been a flood; this has been a feature of the situation for a couple of decades now. It has been slow and steady, but there has been quite a large increase in the number of women seeking employment outside the home. I think that will continue.

The other feature, of course, has been the extraordinarily large size of the youth population. That is coming to an end within the foreseeable future. It is already winding down. So the influx of young people in the labor market is not something we will have to deal with forever unless the birth rate goes back up again.

But I would anticipate that over the next few years, if all goes well, that we will have a continuing decline in the unemployment rate. And if Government fiscal policy is appropriate, if the private sector performs well, especially if investment comes along well, I see no reason why we cannot continue as an economy to create enough jobs for most of the people who want to work.

Mr. FOUNTAIN. Dr. Lampman?

Dr. LAMPMAN. I might just add, Mr. Chairman, that there are several different faces to public service employment, of jobs created by Government for a special part of the population.

I would emphasize that two parts have to do with people who are in some sense quite disadvantaged in the labor market. The first group we could perhaps call the disabled who need therapy as well as work. They need sheltered work. They are just unable to compete in the standard labor market, even at very low wages.

In some European countries they have gone much farther than we in developing sheltered work opportunities. This is subsidized work, if you will, which has an element of therapy in it.

The second usage of public service employment would be, I suppose, for those people who are able to work, but who are, nonetheless, hard to employ. Ex-convicts or alcoholics or drug addicts would be examples. Those people need training and on-the-job experience. And that may very well have to be subsidized to be successful.

So that kind of job creation and that kind of special emphasis of public service employment for those who are either unable to compete or unable to be productive enough to compete and those who need special training could be a much more widely used type of public service employment.

Mr. LEVITAS. Before we leave that subject, Mr. Chairman, I would like to ask a question.

Mr. FOUNTAIN. Mr. Levitas.

Mr. LEVITAS. Dr. Levitan, if I recall correctly, you said that one of the avenues that should be explored in reducing the numbers of people on welfare is the creation of more jobs. That is what you have just been discussing. And yet, if I recall Dr. Lampman's testimony correctly, he makes the point that families with unemployed heads of household made up only 9 percent of all poor families, as compared to 5 percent of the total population.

I was rather surprised to see that statistic. It doesn't appear to me that the creation of new jobs would have a substantial impact on that additional 4 percent.

Where do you see the new jobs as playing an important role there?

Dr. LEVITAN. I believe that Dr. Lampman's reference to 9 percent was to male heads of families. Is that right?

Dr. LAMPMAN. That represented heads of all families counted as income poor. As is also mentioned in the fuller text, a good many heads of families are out of the labor force rather than being counted as unemployed.

Mr. LEVITAS. You go on to say in the next sentence, Dr. Lampman: "So, unemployment is not the most distinguishing characteristic of the poverty population. Looking at the figures another way, one is impressed by how many of the poor are employed."

As Dr. Levitan was concluding his remarks, he seemed to target job creation as being a major means of assaulting the problem of reducing the numbers who are now within the welfare system. And I am just wondering whether or not those two statements can be reconciled.

Dr. LEVITAN. The latest numbers that I have for AFDC employed heads of families is 16 percent for female heads of families and 12 percent for male heads of families. Those numbers are for 1973. We get them every 3 years, and those are the latest we have.

But my research indicates that lots of people who are on AFDC are working. Since it is not reported work, we don't know how many of them are working, but lots of them are working.

I would also assume—and there is lots of evidence for this assumption—that if you want to create the jobs that would be more attractive than welfare then you would get lots of people who are now on welfare who would be able to work and would work. I don't know whether those jobs should pay twice as much as welfare or what the amount you decide should be.

Dr. RIVLIN. May I jump in between these two gentleman and try to reconcile the problem?

I think it is a definitional problem. People counted as unemployed are those who are in the labor force and who are actively seeking employment. The members of that group do not make up a very large proportion either of the whole population or of the poor population.

On the other hand, a lot of people are on welfare and are not working. I think it is to these that Dr. Levitan was addressing his potential program—those who are not now working and not now seeking work, perhaps because they don't see it as available, but who might work if jobs were created especially for them.

Mr. LEVITAS. I now understand the difference in that. The assumption that you made as to the explanation of why they are not seeking work may be subject to further discussion, but I now understand the difference between those two figures.

However, Dr. Levitan also pointed out the ineffectiveness of the work incentive program, showing that a very small number of welfare people were attracted into private employment as a result of this program. And yet, Dr. Rivlin, one of the bases of the economic stimulus program of the President in the tax bill that was passed was to give small business credit for hiring people who were previously unemployed.

Now I realize that we are not necessarily talking about people who are in the welfare system, but it is still the same concept.

Do you think, based on the experience of the work incentive program, that there is any likelihood that this would be a successful means of attracting employment in the private sector as opposed to jobs creation through an across-the-board tax cut or investment credits or something of that sort?

Dr. RIVLIN. The additional credit for employing previously unemployed people, incidentally, was a congressional idea—not an administration idea.

Mr. LEVITAS. It was the Ways and Means Committee.

Dr. RIVLIN. The success of the WIN program has not been great. I think it is very difficult to create large numbers of jobs that are suitable for the type of population that is on welfare. It is different from the unemployed population, which is a much more general population with characteristics more like the rest of the labor force.

I would not be willing, at this point, to predict the success of that incentive program.

Mr. LEVITAS. Thank you.

Mr. Chairman, I have some questions which are much more fundamental, but I would rather save them until you and the other members have had a chance.

Mr. FOUNTAIN. Because of the limitations of time and the number of members here, we are going to adopt the 5-minute rule this morning. I have one or two questions and then I will yield to you gentlemen, and then we will go back and forth.

Dr. Lampman, you stated that families with an unemployed head made up only 9 percent of the poor families as compared to 5 percent of the total population.

Could you give us the comparable percentage of unemployed heads receiving AFDC?

This, of course, is the key to the question of whether or not special provisions should be made for the employment of AFDC recipients.

Dr. LAMPMAN. No; Mr. Chairman, I do not have that number. On the contrary, we do have figures showing that at a point in time about 15 percent of AFDC mothers are in fact employed at part-time work.

But unemployment, as Dr. Rivlin emphasized, turns on a different test. It is a question of not being at work, but at the same time searching actively for work.

I would assume that it is higher than that 15 percent number would suggest.

Mr. FOUNTAIN. I realize that we have many people who are employed but who may not be employed in the most rewarding types of jobs financially.

What is the total employment figure?

Dr. LEVITAN. It is over 90 million.

Mr. FOUNTAIN. I believe Dr. Goldberg said it is about 90.5 million. Would you have anticipated 10 years ago that we would have that many people employed today?

We talk a great deal about unemployment—as unfortunate as that may be—but we do not often point out that we have a system that provides this many jobs.

Dr. RIVLIN. I have forgotten the date of the famous publication of 60 million jobs, which everyone thought was an impossible goal.

Dr. LEVITAN. That was 1944.

Dr. Rivlin. It is certainly true that the proportion of the population that is employed has been rising. This, again, is due to the increasing influx of women into the working population.

The proportion of men employed has been falling, I believe, or has at least stayed level.

Dr. Levitan. I think, Mr. Chairman, taking the projections of the 1960's, that we would have come close to that. But what is surprising today is that in a time when we still have a recession and high unemployment, we still have a very rapidly expanding labor market in terms of the numbers of people working.

The fact is that in the European countries, which may have somewhat less unemployment than we, they are more or less at a standstill insofar as new jobs are concerned.

We have been expanding our jobs during the postrecession period although unemployment has remained high.

Mr. Fountain. To what extent, Dr. Levitan, is the rapid increase of participation of women in the labor force a response to the high rate of inflation of the past several years?

Dr. Levitan. I think that is a factor. But a more important factor is what I call the change in bedroom technology that makes it possible for families to have fewer kids. And, at the same time, I think the women's lib idea that women should find some place for themselves outside the home is a factor. I think these are more important factors than inflation, although no doubt inflation is a variable.

Mr. Fountain. I mentioned that Dr. Shiskin said, when he was before the committee, that in Sweden about 95 percent of the women 20 years and over are in the labor force.

I remember that that sounded like a very high figure, and we will ask him about it again. But he actually did say it was about 95 percent. Maybe that estimate is too high.

But if we ever reach a time in this country when 95 percent of the adult women are in the labor force, we really will have to create a lot of extra jobs.

[Editor's Note.—After reviewing their data, the Bureau of Labor Statistics informed the subcommittee that the actual labor force participation rate of women 20 years and over in Sweden for 1976 should read 60.2 percent.]

Mr. Fountain. Mr. Cunningham, do you have questions?

Mr. Cunningham. Mr. Chairman, I hope I didn't hear Dr. Levitan say what I thought he said. I thought he said that welfare and its reform is not a high priority.

If he did say that, I would take strong exception because I would assure him that there are many producers in this country who consider it possibly a $60 billion a year boondoggle.

So I hope, Dr. Levitan, that you didn't say what I thought you said.

Dr. Levitan. I did say it, Mr. Cunningham.

Mr. Cunningham. Then I would strongly suggest that that is not what the majority of the people in this country believe.

In reading all of these statements in their entirety, Mr. Chairman, I am concerned that, while we have quadrupled the money we have thrown at this welfare program between 1969 and 1974, we have doubled those now eligible—going from 27 million to 42 million by definition. I find that disheartening.

Also, Dr. Levitan, I would suggest that there are many who believe that government has created enough jobs, and that they are perfectly willing to let the private sector, which in the past 8 years has created 600,000 new jobs, continue along that profile.

So, with that, I would just like to listen and learn. But I am concerned about this philosophy that welfare reform is not a high priority.

Dr. LEVITAN. Obviously, it is an important social issue. But, at the same time, Mr. Cunningham, I would suggest that, when we talk about welfare reform, we should look at all income transfer payments.

Dr. Lampman, if I remember correctly, used the figure of $42 billion that is spent on welfare, as we usually refer to it, or on AFDC. That includes food stamps and that includes medicaid. But I think that is as high a figure as we can estimate for the AFDC.

Our total transfer payments are above $200 billion. The latest figure is $206 billion. Therefore, I think what we are more concerned with is the rapid growth in total transfer payments—which includes all groups in the population and not just those who are the indigent.

If the $42 billion is a correct figure, then only one-fifth of all transfer payments goes into welfare. The largest chunk goes, of course, to the aged. If we allow companies or employers to terminate employment at the age of 62 or 65, then this is the provision that we make for the retired.

There are other groups that are not needy for which transfers are based on services they have performed during their lifetimes and to whom, we believe, we owe some kind of payment. Included in these would be the military and civil servants.

That is where the concern comes in—about the way we are spending $206 billion, or nearly one-seventh of the total disposable income. About one-seventh of all disposable income comes to American people not for working, but rather because they were in the Armed Forces, because they are poor, because they are aged, and so on.

I would think that that is a much more important concern, and I think that we should not concentrate only on the $40 billion—which is a large chunk of money—but we should concentrate on the larger issue of looking at the other parts of the transfer payments, as well as welfare.

For example, a bill to let the aged retire at 70 is now before Congress. Military people might possibly not collect their retirement before age 60. We might require civil servants to work longer and not be able to retire at 55. Changes like that could yield great savings—much more than you could have by cutting down a lot in helping the poor.

Mr. FOUNTAIN. Mr. Cunningham.

Mr. CUNNINGHAM. But at the same time, in the private sector, social security begins offsetting income between 65 and 72. That forces them to the poverty line.

But after 72, they can earn all they want to earn.

In Dr. Lampman's statement, he identified this poverty income gap as a $45 billion a year expense which the Government, in its efficiency, covers with a $53 billion band aid.

That is only $8 billion. But a lot of people would question why there is a difference. Why does it take $53 billion to fill a $45 billion gap?

And this to me is the type of thing that makes this reform a high priority.

Dr. Lampman. Mr. Cunningham, what is meant there is that we start with a pretransfer gap of $45 billion. The Government spends $53 billion which is directed toward these pretransfer poor. We end up with a gap of $15 billion.

I think what you are getting at is that there appears to be some inefficiency there—that if we had spent the $53 billion in one way rather than the way we did, we would end up with a posttransfer gap of zero. Is that what you are questioning about it?

But some of its spills over.

Mr. Cunningham. I understand that.

Dr. Levitan. There is another point, Mr. Cunningham, that you ought to consider. The expansion of AFDC has been largely arrested. We are still reacting to the vast expansion that took place in the 1960's and the early 1970's. Elected officials and the media repeatedly deliver the message that if we extrapolate these figures to 1990 or 2000, all of us are going to be on welfare and we will all be driven to the poorhouse.

I am suggesting, Mr. Cunningham, that such projections are an idle fear. During the Great Society and during the first term of President Nixon, society provided the basic needs for those who were the most needy in our population—namely, the aged and the female heads of families.

And having provided for that, that number remains relatively constant. This is particularly true of the AFDC population. We have reached the saturation point. The statistics are there and there is no question about it.

Also, we are not increasing—as we did in the 1960's and the early 1970's—the payments to them because then they were in utter deprivation. Now, with the exception of a few States, deprivation has been largely eliminated. So there is not a compulsion, even in affluent society, to increase the benefit level.

Therefore, I would suggest that we are still reacting to State projections based on faulty assumptions. The dire forecasts are not happening.

Mr. Fountain. Mr. Levitas?

Mr. Levitas. Thank you, Mr. Chairman.

Dr. Lampman, you estimate that somewhere between 16 million and 20 million persons are in the pipeline of welfare systems. Does that include SSI as well as AFDC?

Dr. Lampman. Yes.

Mr. Levitas. How many are involved in the AFDC program and the general assistance programs, leaving aside SSI?

Dr. Lampman. If we use the 16 million as the total, I think roughly 10 million are in AFDC and about 1 million on general assistance.

The remaining number includes the aged and the blind and the disabled.

I mentioned that the most rapidly growing group now in this welfare population is the disabled. With the advent of SSI and national standards at work on the disabled, we are seeing a very rapid growth in that number.

Mr. Levitas. In addition to that, I believe you have a figure here that the welfare mothers and their children constitute about 10 million of that AFDC population. Is that correct?

Dr. Lampman. Yes.

Mr. LEVITAS. Do you have figures available as to the number of persons in the Federal, State, and local governments who are involved in the administration of these three programs?

Dr. LAMPMAN. I am sorry; I do not.

Mr. LEVITAS. Do any of you have those figures?

Dr. RIVLIN. I believe we could provide them.

Mr. LEVITAS. I would like to have that, if you would. I have previously received figures that approximately 2.5 million persons are directly involved in the administration of these three programs. That is a rather high ratio, it seems to me.

So if you could, we would like those figures submitted to us.

Dr. RIVLIN. I think we could look that up for you.

[The information follows:]

ADMINISTRATIVE EMPLOYMENT IN PUBLIC WELFARE PROGRAMS

Precise figures concerning the number of individuals involved in administering the various public welfare programs are not available. The extensive administrative overlap, especially at the local level, precludes a simple count of individuals and suggests a cautionary note when examining any aggregate figures.

Monthly estimates of administrative employment by level of government for October 1976 are derived by the Bureau of Census from personal income data collected by the Bureau of Labor Statistics. This data indicate that approximately 381,600 individuals were involved in the administration of public welfare programs in October 1976. These programs include the various child nutrition programs, the food stamp program, some veterans programs, the aid to families with dependent children (AFDC) program, medicaid and the supplemental security income (SSI) program.

Of the total administrative employment in public welfare programs, 50.3 percent were employed at the local level, 42.2 percent at the state level, and 7.5 percent at the Federal level. (See enclosed Table 1.) The estimated Federal, State and local payroll for all the individuals involved in administering these programs was almost $3.9 billion in fiscal year 1976. The distribution of welfare workers varies by program type. For example, in fiscal year 1976, 92.7 percent were employed by the Federal Government in the SSI program. In the AFDC program, almost the entire State and Federal welfare work force is employed at the State and local level. (See enclosed table 2.)

TABLE 1. ADMINISTRATIVE EMPLOYMENT IN WELFARE PROGRAMS: FEDERAL STATE, AND LOCAL GOVERNMENTS

Monthly estimates for October 1976

Definition of Unit	Number of Persons	Expenditure on Payroll (in thousands of dollars)
Federal	28,600	32,151
State	161,000	144,000
Local	192,000	154,000
Subtotal: State and Local	353,000	298,000
Total: Federal, State, and Local	381,600	330,151

SOURCE: Department of Commerce, Bureau of Census, Government Employment in 1976, Government Divisions publication; and Social Security Administration, Financial Management Division.

CONGRESSIONAL BUDGET OFFICE

TABLE 2. FEDERAL, STATE AND LOCAL ADMINISTRATIVE EMPLOYMENT FIGURES BY PROGRAM TYPE: FISCAL YEAR 1976

Program Type	Number of Federal Staff	Number of State and Local Staff	Percent of Total Staff Federally Employed
Supplemental Security Income	22,000	2,000	92.7
AFDC	525	97,970	.5
General Assistance	0	8,200	0
Food Stamps	1,825	18,600	9.0
Medicaid	600	34,450	1.7
Veteran's Pension	2,200	0	100
Extended Unemployment Insurance	253	60,000	.4
General Assistance Indian Affairs	270	0	100
Other Social Services	0	91,150	0
TOTAL	27,673	312,370	8.2

SOURCE: Social Security Administration.

Mr. LEVITAS. Let me revert to something which was said by my colleague, Mr. Cunningham. At the risk of repeating a cliche, it seems that we are rearranging the deck furniture on the *Titanic* in talking about these aspects of the welfare system and welfare programs.

There is enormous public dissatisfaction with the welfare program—both by the people who are having their taxes taken to supply the funds for the program and also by the recipients of the programs who are very dissatisfied with the way in which it is being administered and in which they are receiving these benefits.

And I think this growing disaffection is going to be manifest in the congressional response to the future of these programs. And for that reason, I think the President has very correctly perceived that one of the primary priorities of his administration should be a major reform and overhaul of this system.

One aspect of this is not only its cost, but its terrible complexity and the large administrative overburden of the system and the proliferation of the categorical programs.

Dr. Levitan, in your testimony you referred to some studies that had been conducted as to the effectiveness of a type of negative income tax or a minimum income. I never thought that I would perhaps find myself leaning towards agreeing with Milton Friedman and Barry Goldwater and George McGovern all at one time, but it seems to me that if your statistics are correct, there would be some very definite benefits there insofar as moving people out of the welfare system.

Dr. LEVITAN. It would cost a great deal of money to have a negative income tax that would be acceptable to the Congress and that would be acceptable to the majority of voters.

But when you put Mr. McGovern, Mr. Goldwater, and Mr. Friedman in the same bed, I don't think they would agree on the code word.

They are talking about negative income tax and we are talking about welfare reform. How much money you are going to put into it is the real issue.

You may recall that in 1972 one of the problems that Mr. McGovern had was that he tried to offer $1,000 per person. It was not very far from what Mr. Nixon was offering under his proposed family assistance plan—$2,400 per family, or $600 per person. But those few hundreds of dollars made a great deal of difference and would have cost the taxpayers many, many billions of dollars. Every time you raise the minimum income level, you not only pay out more per individual, but you qualify many more people. You also increase the cost by billions of dollars.

Dr. Lampman may have better estimates—which I wouldn't believe anyway. But if you want to have a negative income tax, I would say that the downpayment starts with about $10 billion dollars—the cost over that depending of course on how much you want to pay.

If you want, for example, to go to $4,000 for a family of four, I think $10 billion would be a ballpark figure. It could be less, if you want to go to a lower income level; it could also vary depending upon whether or not you would force beneficiaries to work.

President Carter's proposal apparently includes a reduction in payment if there is an employable person and a guaranteed job. That, I would submit, would be even more expensive because to create a job would cost more than the difference between the $4,200 that would be offered to a family of four and the reduced level a job refuser would have guaranteed.

Mr. LEVITAS. Did you say "to create a job?"

Dr. LEVITAN. Yes; as I understand it from the newspaper reports, the administration is going to propose a guaranteed income—maybe it will be called by a different name, but let's call it what it is—a guaranteed income of $4,200. And then, if there is an employable person in the family, the guaranteed income would be reduced to $2,300 if the person refuses to accept a job.

The creation of a job, I am afraid, will cost even more than the additional $1,900. Therefore, the total costs would be higher.

All I am trying to say is: There ain't no free lunch. I think all of us would agree with that. And any reasonable welfare reform or guaranteed income means an additional outlay on the part of the Federal Government which will run to $10 billion or more.

If you want to undertake that kind of downpayment, then we can talk seriously about the various techniques and the various strategies to reform welfare.

But until we have the additional $10 billion in the bank, I don't see any point in talking about it.

Mr. LEVITAS. Mr. Chairman, I have some additional questions, but my time has expired.

Dr. LEVITAN. I am sorry, Mr. Levitas; I will give a shorter answer next time.

Mr. LEVITAS. I appreciate your answer. Some of the next questions I am going to ask will, I think, evoke even lengthier responses.

The thing that still disturbs me, Dr. Levitan, and which still sticks in the back of my mind is that, given what Mr. Cunningham has alluded to and what I would corroborate, there are growing pressures on the Congress to not simplistically, but realistically, do something about the existing welfare system in terms of its costs, its administration, its approaches, and its philosophy. However, we seem just to be trying to clip its toenails and comb its hair and make it look a little better rather than getting into something much more deeply.

Dr. LEVITAN. I don't know that what you are suggesting is so cosmetic. During the last decade, particularly between 1965 and 1975—or until we had the recession—we had to catch up with a very important item that should have been on the Nation's agenda, and that item was to provide for those in the greatest need. Included in that group were the aged and families headed by females. There has been an increase in the number of families headed by females because of the disruption of families which is general in American society. We have succeeded in providing for those.

Therefore, if Congress, as well as the administration, instead of reacting would just sing a different song, and point out that we have accomplished a great deal and that we have basically fulfilled the most pressing needs and that from now on we can sail much more freely because we have done what we should have done years ago, then I think that the populace would react differently too.

But as long as we all keep on singing one refrain—that this is a welfare mess, that it costs too much and that it is destroying the American work ethic—we will, if you keep on telling us, believe you.

I am suggesting that we take a different tack. I think that is a much more realistic tack than is taken now by the media.

Dr. LAMPMAN. Dr. Levitan didn't mention, in his last statement, the medicaid program. Now that is the largest single welfare program we have now among the so-called welfare programs. It is about $15 billion, which exceeds by far the amount we spend on AFDC. And that is a very important addition to programs that the Federal Government has supported since 1965.

Now when we talk about the administrative simplicity of programs, those people who advocate a negative income tax will say, "We can cash out some programs." And the chief candidate for cashing out, I suppose, would be the food stamp program. Second would be some of the housing supplement programs.

But no one that I know of is talking about cashing out medicaid. So we are going to end up with more than one program, even though we may go the negative income tax route.

The second kind of benefit that has to be considered in any negative income tax reform is child day care. What are we going to do about that important service?

Some people would argue that if we want to get more people into jobs, we have to spend more on child day care. And I would almost predict that no matter what happens that we are going to see an expansion of public funds going into the subsidization of child day care for mothers who are at work.

So we are going to have a number of programs even though we go the negative income tax route.

Mr. FOUNTAIN. Mr. Fuqua.

Mr. FUQUA. Thank you, Mr. Chairman.

It seems that welfare reform is the second most talked about subject there is. It comes right behind the weather, and probably just about as much is accomplished in trying to do something about it. It has been a favored topic ever since I have been in public office.

Do any of you have figures showing the cycle of AFDC recipients in terms of how many AFDC children, once they achieve adulthood, also come back on the AFDC rolls? Are we breaking the cycle at all, or is it still continuing, evolved over many years?

[Information provided by Dr. Rivlin follows:]

INTERGENERATIONAL WELFARE DEPENDENCY

An often heard criticism of the current welfare system is the claim that children whose parents are dependent on welfare will themselves grow up and be welfare recipients. Available evidence indicates that this is not the case. However, the studies are based on incomplete information or groups not representative of the entire welfare population.

Two recent studies using data from a Michigan study on income dynamics conclude that there is no evidence to support the claim that intergenerational welfare dependency exists. These studies suggest that families whose parents were on welfare may be five percent more likely themselves to receive welfare than those who were raised in families that were never welfare recipients. The five percent difference is not statistically significant and could be attributable to a number of other characteristics not examined in the studies.

Fragmented evidence from regional studies show little incidence of intergenerational welfare dependency. A 1975 study of women receiving AFDC in New York City found 80 percent of those surveyed came from families that had not received welfare. A 1968 study of families in New York State found about 75 percent of the women receiving welfare benefits had not had parents that were assisted by welfare. In Michigan, a 1968 state survey of 600 families found 22.8 percent of the families had a mother who received AFDC as a child. These studies are peculiar to regions and the latter two are based on information ten years old.

There is evidence that, even if intergenerational welfare dependency exists, the rapid turnover with which low-income families move into and out of welfare programs would reduce its significance. A Michigan income dynamics study of female headed households found that between 1967 and 1973, 26 percent of the households were continuously receiving welfare benefits. More than half of a group of New York City welfare recipients in 1967 had not received assistance before 1960. These studies show that most of the welfare population is not chronically dependent on public assistance, and therefore suggests that the proportion of people currently on welfare whose parents were chronically dependent on welfare support is small.

Although all of these studies suffer from the usual difficulties of small sample size and limited geographic coverage, they do suggest that if any intergenerational welfare dependency exists it is a very small proportion of the total welfare population. Extensive research and expanded longitudinal surveys would be required before a more definitive answer could be obtained for this difficult question.

Dr. Levitan. Again, that is generally exaggerated. There are some cases of welfare recipients into the second and third generation, however they are not the rule.

One figure we have for fiscal 1976 is that 1.5 million left AFDC and 1.7 million were added to AFDC. This shows that there is a very large turnover.

I think a point made earlier by Dr. Lampman ought to be picked up again and emphasized. When we talk about welfare, the big load now is not in AFDC. It is in disability insurance. We have added in the last few years about 1.5 million additional cases, or over 4 million dependents. What is happening is that for people over the age of 50 who are low earners, disability insurance is now a substitution for jobs. If we are going to administer it quite loosely—not as we did initially—then that is where the big load is occurring.

But again, we are—as always—focusing on AFDC. I would like to repeat that AFDC payments, or what we normally call welfare, is only about one-fifth of the total transfer payments.

Mr. Fuqua. Dr. Levitan, in your statement you talk about the proposals that have been made for work. And you said that unrealistic expectations will breed a sense of futility. You say that neither jobs nor welfare will work.

You say the cost will be worth more than the reduction in the welfare.

Could you expand on that?

Dr. Levitan. I hope, sir, that I didn't say "worth." I wouldn't want to pass a judgment that it is worth more or less; I am just saying that it would cost more money.

I am saying that under the wage structure in the United States—and I don't know of any other nation that has a much better one—lots of people are earning below $3 per hour. That means that about one out of four people—not counting self-employed persons—is getting less than $3 an hour. The people on welfare will have to compete with the 16 million people who are very low earners for low paying jobs.

Furthermore, many of them simply cannot work full time. Of the male heads of families who are on AFDC, over one-half are incapacitated. Of the females, it is a much smaller percent, but many of them simply cannot get jobs.

Therefore, the incidence of unemployment is very common and they do not normally work full time.

If you want to realistically supplement the AFDC, you have to have a system of work and welfare. In addition to that, if you want to enable them to rise above the poverty threshold, you would have to allow them to work as well as receive the AFDC.

Most of the 2.8 or 2.9 million families headed by females who are now on AFDC are not going to raise their families above the poverty threshold by work alone if you consider their lack of skills, their lack of education, and consequently, the types of work available to them.

Dr. Lampman. Could I add to that that AFDC now fully reimburses the cost of child day care if a mother goes to work. That is an additional expense, you might say, of following the route of work and welfare simultaneously.

Mr. **Fuqua.** Dr. Rivlin, what is the multiplier effect of public works type jobs that they would probably be engaged in versus just straight welfare payments? Is there a difference in the multiplier effect to the economy?

Dr. **Rivlin.** No, I don't see why there would be.

Mr. **Fuqua.** Would not public works encouraged jobs have to be performed by people in the so-called private sector at some additional cost?

Dr. **Rivlin.** I interpreted your question as referring to whether there is a different effect on the gross national product of a given amount of Government spending. If you take a given amount of Government spending, does it matter how you spend it, whether you spend it to employ people, or whether you spend it to pay people not to work? I don't think there is much difference between those effects.

On the other hand, if you are talking about how much employment can be created by different methods of publicly employing people, you do have to consider how many of the jobs that would otherwise have been performed are being replaced.

Public works is a relatively inefficient way of creating additional jobs. That is partly because the kinds of jobs you create when you build a dam or something like that are relatively high-skilled jobs. Thus, it takes a fair number of dollars per person employed. Also, you have to attract many of these highly skilled people out of the private sector, since there are fewer of them on unemployment.

A more efficient way of creating jobs, in terms of the number of jobs created per dollar, would be straight public service employment, whereby you would provide relatively low wages to people with relatively low skills. These are people who would probably not be employed otherwise who could be hired to do something that would not otherwise be done.

Mr. **Fuqua.** Thank you, Mr. Chairman.

Mr. **Fountain.** Mr. Wydler.

Mr. **Wydler.** Can anybody on the panel tell me whether we have any universally accepted agreement on what group of people can work and what group of people cannot work?

I don't know what that means. We are always hearing that people should work. And everybody can agree with that assumption. But then, of course, the hard part of that statement to me is: Who can work?

Do we agree on who can and who cannot work?

Dr. **Rivlin.** No, and I don't think we ever will agree. This is a very value-laden question, which comes up in a lot of contexts. One such context is the employment of the elderly. We have adopted a sort of arbitrary definition that people over 65 should not be expected to work. And yet, a lot of people over 65 do work.

Mr. **Wydler.** We have great pressures in our country right now to say that a person should not be forced to retire when he reaches the age of 65. Many believe that he should be allowed to continue to work.

Dr. **Rivlin.** That is just evidence that we don't have agreement on this question. The same is true about the mothers of small children.

The AFDC program, as well as other approaches to welfare, generally assumes that if a mother has very young children, she should not be forced to work.

The question is: What does "very young" mean? Does it mean 3 years old or 6 or 12? There is a lot of disagreement about that. But no matter what age you take, there are a lot of women with children in that age group who do in fact work.

Dr. LEVITAN. I think what you ought to add to your question is: At what pay?

At a rate of $2.30 an hour, there would be so many people who would not want to work and who would not work.

Mr. WYDLER. I am not asking who wants to work, but I am trying to determine in my own mind whether or not we really understand what we are talking about when we say that people who can work should work.

That is a nice statement, but it doesn't mean anything to me until I understand who those people are who can work.

Let's limit it to "can work" rather than those who want to work or feel anxious to work and so on.

Dr. LEVITAN. Dr. Lampman mentioned earlier, as did you, the disabled. I believe that if one could give them reasonably good jobs at $3 or $4 an hour, many of those who are now classified as disabled could and would work.

But if they have intermittent work and very low-paying jobs, they find that they can establish disability and qualify for insurance.

So, again, I would join with Dr. Rivlin in saying that we have no definition. And it boils down to a large extent to what kinds of jobs you create for people.

Mr. WYDLER. I find it somewhat inconsistent to say that a handicapped person—and, again, we would have to define our terms—cannot work. I am constantly being told by the handicapped that they can work.

They are insisting that they have the ability to work and are telling me that they want legislation requiring people to hire them, in effect, or certainly to give them equal treatment in hiring.

So to say on the one hand, as part of our official policy, that they are unemployable and that they cannot work and, at the same time under other Federal programs to say that they have to be treated equally is a little bit inconsistent.

Dr. LEVITAN. Let me, if I may, strike a professorial attitude. I have made many categorical statements here today.

The confusion dates back to 1935 when the Social Security Act was adopted, and when we had lots of unemployed. Congress decided at that time to make the categories of "employable" and "unemployable." The more people who could be excluded from the labor market by being supported, the less problem there would be of creating jobs for the others on WPA or CCC and the other programs of that time.

We have been living since then with this dichotomy of "employables" and "unemployables." As you suggest, and as Dr. Rivlin suggests, I don't think it really exists.

Obviously, however, some people are very sick and cannot work. If the handicapped person can work, sheltered workshops can offer one type of arrangement.

Certainly, we cannot talk as we did in the 1930's that the female cannot work if she has children because there are some 6 million women now who are working and who have kids below the age of 6. And, certainly, the aged can work; but, Congress decided to tax the aged at a 50-percent tax on social security if they continued to work. So, therefore, the law induces them not to work.

So I don't know who cannot work. I think it depends upon the pay they can get.

Mr. Wydler. The hardest thing to me is not to say that everybody who can work should work. That is an easy statement to make. I don't think there is any kind of reform to suggest that that will somehow reform the welfare system.

But we might be able to reform it if we were to actually sit down and determine who can work. And that would be a hard thing to do if we were to call for some hard Government decisions in terms of defining certain groups which we have previously been accepting as groups that can't work as groups which really can work and should work.

That might really take some courage, but it might be an effective way of trying to reform some of our welfare problems. And I don't see any attempt to do that.

We simply keep talking about making people who can work work. But unless we know who those people who can work are, I don't think that means anything—or at least nothing significant, in any event.

What, in your opinion, would be the effect of a large rise in the minimum wage on the welfare program?

Dr. Levitan. Again, you are using a word there which you are not defining now, sir. And that word is "large." Is 20 cents large or is 35 cents large?

Mr. Wydler. This is a theoretical question, so I am putting in theoretical terms. For the purpose of this question, I would say that "large" would mean a 20- or 25-percent increase in the minimum wage.

Dr. Levitan. Based on simulations, economists have made all sorts of estimates but none is reliable. The best answer is to assume that the extent of disemployment would depend upon the kind of labor market that we will have.

Also, some groups are definitely going to be affected more than others. Youngsters will be more affected than the mature workers.

But, again, all of the evidence suggests that the aggregate income of the working poor—or those at the bottom of the economic ladder—rises when you increase the minimum wages in the way that you have done so far, trying to maintain it at around 50 percent of the average wage in American industry.

Certainly it has abolished some jobs. But, on the whole, it has saved a lot of people from deprivation by increasing the total income of the poor.

President Carter suggested an increase of 35 cents. I think that would have done very little damage. On the other hand, lots of people who are working and who are dependent upon their income and who are not on welfare will now get a larger income if you decide that you are going to accept a 35-cent increase.

But at the same time, the higher minimum wage will cause some disemployment. How much, nobody really knows, and it becomes a matter of religion rather than one of economics.

Dr. **Rivlin.** If your question were addressed to what the effect on the welfare program would be, my guess is that it would not be very much. There would be some offsetting effects, as Dr. Levitan suggests, but most of the people on welfare are really not affected by the level of wages. There would be more inducement to people to get off welfare and to get a job, but there would also probably be some increase in unemployment.

Mr. **Wydler.** Thank you, Mr. Chairman.

Mr. **Fountain.** Dr. Rivlin, I think it is clear from your statement that the number of poor families can vary tremendously at any given time—depending upon how one defines and measures poverty.

If you were asked to construct a responsible and economically reasonable poverty measure for determining AFDC eligibility, what measure would you select? Also, how would you treat regional, as well as urban and rural, differences in living costs and living standards?

Dr. **Rivlin.** I am not sure that there is a single good answer to that. The definition of poverty we now have, the official Government definition, seems to me not a bad approach.

There is a question of what the level should be—whether we should take the current level or use a somewhat higher level. But I don't think there is any technical answer to that. It really is a judgment of those using it—whether the Congress or some other group—as to what is the level of income below which we do not want people to fall. That is a judgment.

The question of regional adjustments or of State adjustments is really a much more difficult one. There are large differences in the costs of living within geographic regions as well as across them. And we really don't have very good data at the moment to adjust those.

At best, one takes the cost-of-living statistics that are computed for urban areas and for regions, and applies them. But they are very gross measures.

I think, if we were going to make serious efforts to build regional variation into the poverty measure, we would probably have to start collecting more cost-of-living data on an area basis.

Mr. **Fountain.** Would anyone else care to comment?

Dr. **Lampman.** Mr. Chairman, as I understood it, your question had to do with AFDC eligibility. I would point out—and I am sure this is well known—that the definition of income for AFDC is altogether different from the definition of income for the poverty statistics, and it is possible to argue that one could make changes in the AFDC definition of income and resources that would quite alter the eligibility standards.

Thus, AFDC often looks at 1 month of income, and some people—at least in my State of Wisconsin—are more or less regularly on AFDC part of the year and off for the rest of the year. This is because they have a very low income for, let's say, the summer months or for the off-season in the woods or something.

So you get a variability there. If you had an annual definition of income in determining eligibility of AFDC, you would have a very different grouping in that regard.

Mr. **Fountain.** Dr. Goldberg.

Dr. **Goldberg.** Generally speaking, is it your judgment that the official poverty measure would be a reasonable target that one might shoot at in defining eligibility for AFDC, or any other needs-based program?

Or, would you modify the official definition of poverty that is used today in looking at the AFDC population because of its characteristics?

Dr. **Lampman**. I think the thing that distinguishes the two is that with AFDC, and some other welfare programs, we are looking at emergency and crisis problems of people. That is, in my mind, it is quite clearly possible that a family could be in a very great crisis even though their annual income is well above the poverty line. They might have had a death in the family; they might have had a burnout of their house; they may have had disruptions of the family of some sort; and they need help right away. They need not only cash, but counseling and other social services.

So, in that sense, the poverty line notion does not always apply. So, I think that one could accept your notion that we have these two ideas in mind. Where it is feasible and sensible, we should think of poverty lines as targets for supporting incomes when people have more or less chronic and long-term needs.

But the emergency need problem is going to be there even though we get everybody above the poverty line.

Mr. **Fountain**. Dr. Rivlin, in your concluding paragraph, you identify as a very real problem the finding that without Government transfers one of every four American families would be poor—a situation that has not changed dramatically over the decade since the war on poverty began.

Does this indicate that the war on poverty has failed? Would its success have reduced pretransfer poverty?

Dr. **Rivlin**. No. On the contrary, I think the fact that Government transfers go a long way toward eliminating poverty must be considered a success.

To be sure, the success is not entirely attributable to the so-called war on poverty; much of the reduction comes from far older programs. It comes from social security, which was a program of the New Deal. The programs, enacted in the 1930's, are making a major contribution now to the reduction of poverty that would otherwise be there.

I am not even sure what you would consider an appropriate percentage of a population that would be pretransfer poor. But it is certainly not zero. Any society must expect that there will be a substantial portion of the population that will be poor—if only the aged who are living on transfers at any particular moment.

Different societies make different provisions for this problem. The role of public transfers as opposed to private or interfamily transfers varies. But somebody has to do it. At any given moment, there will always be a substantial proportion of the population that is not earning. And there should be.

Mr. **Wydler**. Would you yield, Mr. Chairman?

Mr. **Fountain**. Mr. Wydler.

Mr. **Wydler**. This depends upon how you define "poverty," doesn't it? You can define it any way you want; you can make the figures anything you want them to be.

Dr. Rivlin. That is true. But I am suggesting that there will always be, at any given moment, a proportion of the population that is not earning an amount equivalent to what is defined as the "poverty level." And it doesn't matter what that particular level is.

Mr. Wydler. As a matter of fact, the most sensible thing might be to define "poverty" as the "lowest 20 percent of the population in income," and just put it that way.

Dr. Levitan. I would say that there is something to an absolute definition of "poverty"; namely, a command over a basic caloric intake and other essential needs. Now, granted, it would be different in India and the United States. I think that reasonable people can agree as to what are the basic needs in our society for keeping body and soul together. And then, we can reach an absolute definition.

I wouldn't leave it as completely arbitrary. I think we need a figure such as the $5,850, which is now the definition of poverty for a family of four. Some would say that it is too low and some would say it is too high. It is reasonable and is based on some objective data. And I think we can, as Dr. Rivlin has suggested in her testimony, develop it differently, but there is something to an absolute definition.

Dr. Rivlin. Sure. But you are never going to have 100 percent of the population earning that before transfers.

Dr. Levitan. That is right; of course.

I was just reacting to Mr. Wydler's suggestion that anybody can define it in any way he pleases. Of course, we can. But I still think there is something to an absolute definition. And that is what we are striving for in the war on poverty: To provide basic needs for everybody in the population.

That is why the Great Society was a success. It did reduce the population in poverty by very vast amounts. That was the great progress that we made in the late 1960's and the early 1970's.

Mr. Fountain. Dr. Levitan, although your statement focuses on the WIN program, can you compare the effort under WIN with the similar program for welfare recipients under CETA in terms of the number of recipients served, the cost incurred, and the results?

Also, in your opinion, does it make sense to have two separate, independent work programs for AFDC recipients?

Dr. Levitan. I can comment on the latter. It doesn't make any sense to me to have separate WIN and CETA programs for the welfare population, dealing with them as different populations. However, given the separate efforts, you must use caution when you compare them.

I do not have, Mr. Chairman, the numbers or the percent of the CETA enrollment that is on welfare or the relative costs. It would be, however, I would suggest, unfair to compare relative costs because under WIN we have a specific population with multiple needs. Some of those needs, by definition, are very extensive—child care and training may be more costly under WIN than under CETA programs.

So I don't think it would serve any good purpose to compare the two or to say that one is better than the other based on the cost.

But I do not see any reason for separating the populations and putting the WIN population under one program and the rest of the people under another. That does not make much sense at all.

Mr. Fountain. What is your opinion, in view of the WIN experience, on whether it is a good investment for the Federal Government to spend substantial amounts to provide training and supportive services for AFDC mothers?

Do such training activities have a high long-term payoff in public service jobs?

Dr. LEVITAN. I would not be able to answer which has a higher payoff. But we do know something about those in public service jobs, sponsored under the initial public service employment program of 1971. There were some experiments conducted especially for the welfare population. It involved a process of selecting the most qualified people who were on AFDC and giving them jobs.

They behaved like most of us and they worked for those jobs. By and large, those efforts were quite successful, from the studies that I have seen.

Mr. FOUNTAIN. It appears from your statement that you assume that the majority of welfare recipients cannot earn enough to be off welfare completely—only enough to reduce their assistance payments.

If the minimum wage were increased in accordance with the administration's proposal to $2.65 an hour, to what extent would a job paying the minimum wage provide sufficient money for a two- or a three-member family to drop out of the AFDC program?

Dr. LEVITAN. The $2.65 in some States would definitely be a good incentive to leave the AFDC system. In order States, it would not be because they get more in cash income plus in-kind benefits. And, therefore, the $2.65 would not be an adequate inducement for leaving welfare in some States unless coercion is used, giving welfare recipients the choice of a job or denying them relief.

Mr. FOUNTAIN. Dr. Lampman, would you like to respond to that question?

Dr. LAMPMAN. I think when people talk about getting people off welfare, they sometimes mean to get them off entirely and get them off the food stamp program and get them off medicaid.

In many States that pay high benefits in AFDC, we are talking then about a breakeven point of $10,000 or more. And these are going to have to be awfully good jobs. Also, you are going to have to cover the cost of child care and so on if you are going to get people to make the leap all the way over that $10,000 number.

One of the interesting points, of course, is that medicaid is associated to an important degree with being on welfare. So, many mothers, I am sure, think long and hard about moving off that medicaid eligibility list.

So there are some built-in disincentives toward making that whole move, and perhaps the society doesn't want them to make that move away from medicaid eligibility.

But, on the other hand, we can imagine a lot of people would be working more than they are now working if we were to take some of the steps that your questions indicate are in order.

We will still have the same number of people on the rolls, perhaps, but they will be doing more work and their benefits will be somewhat lower.

Mr. FOUNTAIN. In my part of the country where the per capita income is very low, I find that the chief concern about welfare is the belief that there are people drawing it who are ineligible.

Now, that may not be true. But people working hard for a living see other people driving up in big automobiles to pick up food stamps, and they see welfare recipients buy steaks when they know they cannot afford these things themselves.

And then there is the feeling that we ought to help those people who cannot help themselves. And I don't think anybody objects to that. I think the vast majority of the American people are in favor of taking what they pay into the tax till and using a reasonable portion of it for that purpose.

But when an able bodied person draws welfare, the question asked is: "Why shouldn't that person work?"

That is why I think the welfare/work combination has been mentioned so many times. And these are the chief concerns that I hear expressed. I would imagine that is pretty much the situation throughout the country.

And, as Dr. Levitan said and as Mr. Wydler has said, we may keep on reforming and reforming but not improving the situation. We may have done a little shifting, but we may have just increased the cost of the program without accomplishing very much.

I don't suppose we will ever have to ration jobs in this country. But there are families in which as many as four or five members living in the same household are working and bringing in $100,000 or more a year.

We also have, I am told, military officers earning the equivalent of a GS-16 or GS-17 salary who have wives working for the Government. Together they are drawing a substantial income.

If we were to adopt some system of limiting that, does anyone feel that would in any way have an impact on the welfare problem?

Dr. RIVLIN. I am not quite sure what you are suggesting, Mr. Chairman.

Mr. FOUNTAIN. I am speaking of possibly restricting the number of people who work where there is a substantial income already in that family.

Dr. RIVLIN. I think that would be a disaster. I can't see any equitable or useful way of doing that.

Mr. FOUNTAIN. I would agree with you, but some people have suggested that.

Dr. RIVLIN. I think the suggestion that, if you have a limited number of publicly subsidized jobs, you perhaps limit those to one to a family is not without merit. But I cannot imagine a world—especially now—in which we would say to the American public: "You've got to decide who in the family is going to work."

Mr. FOUNTAIN. When I grew up, my father was expected to provide for my mother and all of the children. And none of the rest of us worked—except where a mother helped the father run a grocery business or things of that kind.

And I think that was generally the situation then. Now in this day and time, more and more members of a family are working because they see this as a means of having more luxuries and more advantages. So I think these are some of the problems that have arisen largely as a result of our educational system. More and more people are capable of working and want to work.

I don't know how we are going to eliminate some of these so-called inequities, or eliminate the need for welfare.

Dr. **Rivlin**. But they aren't just problems, Mr. Chairman. All of those people are spending money and thus creating jobs for other people as well.

Mr. **Wydler**. That is why the automobile industry is doing so well.

Dr. **Levitan**. And very frequently they are the most productive members of the society. You may have, for example, two people such as you cited as high earners. But the reason they are high earners is that they are also productive.

Mr. **Fountain**. So if we prevented some of those people from working, we wouldn't eliminate the problem, would we?

Dr. **Rivlin**. No; you would create more of a problem.

Mr. **Fountain**. Mr. Levitas.

Mr. **Levitas**. I would like to direct this question to any of you or to all of you.

Can you quantify the number of people who are presently on welfare who, by whatever definition you wish to apply, are able to work but are in fact not working?

Dr. **Rivlin**. We could supply some discussion of that. But it really turns on what you mean by "able to work." In the case of the AFDC program, it definitely depends on a judgment about the point at which a mother is able to work—what age are her children when you regard her as able to work? And, of course, you also have to allow for other problems such as health.

Dr. **Lampman**. I don't think anyone has made this point this morning, but I think it is very important. I would at least assert that many of these AFDC mothers are working, and are working very productively. They are managing a home; they are contributing to the education and the development of their children. I don't know what else we want them to do in many cases.

Now it is true that this is a highly variable population. We are talking about children all the way from 1 day old to the age of 21. We are talking about children of various ages and families of different sizes.

But I think it is quite wrong to assume that these women are not productive members of society.

Mr. **Levitas**. I am not suggesting that. You make the statement in your testimony that 15 percent of welfare mothers are working outside the home. There is no question in my mind that the function of maintaining a home is not only work, but is extremely important work.

This may also apply to some people who are receiving SSI payments at the present time. As Mr. Wydler has said, the trend today is for people who were previously considered to be unemployed because they were handicapped to now assert the fact that just because they are handicapped in some way does not render them unemployable.

We hear a lot about requiring the able bodied to work as a feature of a welfare reform program. How realistic is this in reducing the number of people now receiving welfare payments? Or, is it just a political slogan?

Dr. **Lampman**. As Dr. Levitan mentioned—and urged—that general policy of getting more people who are now on welfare to work depends heavily on our willingness to pay the money to implement that.

If you really want to get people into the work situation, you are going to have make sure that there are more jobs available than there presently seem to be available. And that is going to cost somebody some money. It is going to cost not only in terms of wages to be provided out of the public treasury, but also in terms of training, perhaps, and child day care. And you are not necessarily going to save a great deal from the present benefit rolls.

I am intrigued, as I look at all of these proposals that come along about job creation, that we flip back and forth in our thinking. On the one hand, we say that everyone has the right to a job—that part of being an American is that you have a right to a job.

And that leads one to say, "Well, we entitle everyone to a job." And we immediately figure that that is going to cost at least $40 billion a year to implement that. That's the Humphrey-Hawkins kind of guarantee.

And then, people say, "We don't want to do that."

And then we say, "How many jobs could we afford to create?" And we usually come up with a figure of about 1 million jobs.

Then, if you are going to pay prevailing wages on those jobs, you are going to have applicants for those 1 million jobs on the order of 5 million or 6 million. People do want to work and they will work at prevailing wages if you provide the jobs for them.

And then you have to ration those jobs.

So you are into the curious situation where we then redefine our notion of who should work in order to fit the 1 million jobs. And we say:

> You shouldn't work if you are over 65. You shouldn't get one of these jobs if you have small children in the home; you shouldn't get one of them if you are disabled and so on.

We keep cutting it back. And that strikes me as a very paradoxical situation, indicating how ambivalent we really are about this question which Mr. Wydler was putting to us of who should be expected to work and who is able to work.

It all depends upon how many jobs you are talking about and at what level of pay and what you really feel about this entitlement to a job opportunity.

Mr. Levitas. I agree. One of the things which has come out of the testimony this morning is the fact that the creation of new jobs—and I want to get back to what that means—is not really going to be a significant factor in reducing the welfare rolls, so to speak. In fact, there may be relatively few people who are receiving AFDC who would be taken up by an expanded job market.

The statistics that you furnished, Dr. Lampman, certainly underscore that. But when we talk about creating jobs, I think that is where we begin to draw the line somewhat.

Dr. Rivlin talked about the cost effectiveness of public service jobs as opposed to public works jobs. And yet, many of us believe that the creation of public service employment is one of the two worst ways to create employment because you either make an indefinite commitment to public service government employment or you create a situation where after having paid for these people to work in public service jobs for a specific period of time, if you terminate that program, they either have to be picked up by local governments on their, basically, property tax digest or they go back into the unemployment market.

So all you have done is to create a short-term solution. I don't think most people really would envision CETA or programs of that sort as extending ad infinitum. So we have got to get back to the philosophical argument where many of us think that you have to do something in the private sector insofar as creating job opportunity.

Am I missing something or am I saying something that doesn't exist when I conclude from what you have said today that the creation of more jobs—whether public sector or private sector jobs—would do little to reduce the welfare rolls if we follow the definitions that we now have of "employability" as to mothers with children and as to persons who receive SSI?

Dr. LAMPMAN. I think that is certainly true so long as you make it more or less voluntary as to whether these people on welfare take the jobs or not.

Now if you really want to get rough and say, "OK, we are just going to eliminate AFDC, cut it out entirely, and pick up only people who are actually unable to work for that program," and then if you create jobs for the others, then it would be different.

Mr. LEVITAS. Dr. Rivlin, do you care to respond to that?

Dr. RIVLIN. The basic point, it seems to me, is absolutely right. It is almost right by definition. We have defined "welfare" as something we do for people who are unable to work because they are aged, blind, disabled, or are single parents with dependent children. So it follows from that that unless we change the definition, there isn't very much we can do.

Mr. LEVITAS. Leaving aside the political demagoguery in which some politicians engage, where we decry the able-bodied person who drives down to the welfare office to pick up his welfare check while other people are working hard, is there any substance, if what you say is correct, to the middle class concern that there are able-bodied people who would rather sit on their behinds and not work and collect welfare payments than participate in the great work ethic of America and get a job?

Dr. RIVLIN. There is some substance to it. I think part of the impression arises out of a confusion among programs. A lot of the people who are seen picking up a check are in fact not on welfare; they are on unemployment compensation.

There is no reason why they should be poor. There is no needs test applied to that program. They merely have to show that they are unemployed and are covered by that program. I think there is a lot of confusion about those different definitions.

Again, it comes back to what people expect of other people. And certainly, when you come back to the AFDC mother, mothers generally work much more than they used to. And it is not surprising that a mother of small children who has a factory job and is not earning very much and who sees another mother staying home—and getting paid for so doing—feels a little resentful.

Mr. LEVITAS. Therefore, there might be some social as well as economic benefit to establishing a program in which there could be an incentive for the AFDC mother to seek employment. That may involve day care centers or the concept that Dr. Levitan is referring to as a combination of public assistance and employment so that you have an incentive in the employment end of it to get this welfare mother to go out and seek employment rather than just to receive AFDC.

Dr. Rivlin. Surely. But no one should think that it is going to be cheap. That is the main point. It may be worth doing, but it is not going to be costless.

Dr. Levitan. I think also, Mr. Levitas—since we have already passed the witching hour of Congress, high noon—that it might be worthwhile to remind you that not only do more people work today in the United States than ever before because we have a larger population but, proportionately, more people are now in the work force, either working or looking for jobs, than ever before. That is true at least since 1940, when we started keeping labor force statistics.

And if you really want to experiment with how many people would work and how many could work, we would have to go back to a system of either work or starve. We had that, basically, in the United States before the 1930's. Otherwise, we will never find out. But I hope our curiosity is never strong enough to try to find it out.

Mr. Wydler. May I ask a question, Mr. Chairman?

Mr. Fountain. Mr. Wydler.

Mr. Wydler. I am looking over the form of payment of benefits under the AFDC program. And the point is made often in the New York area that we only get 50 percent from the Federal Government. And we can look down the list and see other States such as North Carolina which is getting 67 percent, and Georgia which is getting 57 percent.

You don't do so well as North Carolina, Mr. Levitas.

But, in your opinion, is this fair, just, sensible, and reasonable? Or, should it all be raised to the same amount or lowered to the same amount? What should we do about this situation wherein some States get a lot more of the percentage from the Federal Government than do others?

Dr. Levitan. Historically, it was fair. What has happened was that the folks in New York who were better off financially could contribute more to support their own poor than the folks in North Carolina or in Georgia.

Now you are facing problems in New York and you may want to change the formula. There may be justification for that—I don't want to lose any friends here—and you might make a very good case now for changing the formula.

Mr. Wydler. I am not talking about the amount that is being paid. I am talking about the percentage of the amount that is paid for by the Federal Government.

Dr. Levitan. Well, being richer, the people of New York—out of the goodness of their hearts—paid their poor a little more than a poorer State that simply cannot afford it.

I think that that is a fair system. And until you can establish that you in New York are more needy than the people of Georgia and North Carolina, then the present system should continue.

But if you can establish more pressing needs and show that the Sun Belt is getting too rich and too prosperous and should support more of the "poor North" and "poor New York," then the system should be modified. But so far, I don't think you have made a case for such a change.

Mr. Fountain. North Carolina has an analogous arrangement for elementary and secondary education. We are attempting, on the national level, to equalize services among the States. And we have a State equalization law in my State in the field of education.

We have 100 counties. And in many of them, particularly in the coastal areas, the per capita income is very low. The State, however, equalizes that by providing funds to those poorer counties. This enables those children to get the same kind of education as do the children in the richer counties.

But the money which goes into the State till is primarily from the richer counties of North Carolina.

Is that not somewhat similar to what you are saying? Are you not saying that we do somewhat the same thing on a national basis?

Dr. Levitan. Yes. And I think it might be worthwhile to consider the fact that per poor person, the Federal Government contributes more dollars in New York than it does in Georgia or North Carolina.

Mr. Wydler. There is no question about that.

Dr. Levitan. You pay a higher level because you want to support the poor in a better style. And, therefore, you are contributing more. But the Fed is contributing more per poor person in New York than to the poorer States.

Again, statistics are funny. It depends how you use them.

Mr. Wydler. I just would say that my own examination of this question is that we cannot escape paying a lot of money out of our State treasury for our welfare problem in New York City.

I have heard some people talk of going to a federal system. And the assumption there is that the Federal Government would pay all of the welfare costs. But I presume that if they are going to pay it, they are also going to set the levels. And if they are going to set the levels, they are never going to set them at a rate high enough for New York.

Then, in effect, we would go in and supplement them with some form of State payment. And we would be right back where we are now.

So to me that is just the logical series of events that would take place. And when we finished, we would be right back where we started.

I have never understood why people feel that would work—unless we assume that the Federal Government is going to allow the State of New York to set the level it wants and then pick up the bill. That, I don't think is rational. But it would seem to be the only way it could work.

Dr. Levitan. I think what would work is that Congress would take welfare burdens off the county supervisor's or State Governor's back and put it on Jimmy Carter's back.

Mr. Wydler. That's not a bad idea.

Mr. Fountain. Dr. Rivlin, according to the survey of income and education (SIE), the absolute number of poor children rose by 149,000, or almost 4 percent, in areas outside the South from 1970 to 1975.

To what do you attribute this rise in poverty?

Dr. Rivlin. If you remember what was happening to the economy during this period, you will recall that 1975, as compared to 1970, was a recession year. Unemployment was extremely high in 1975. It was higher than it had been at any time since the 1930's.

There also has been a general shift regionally. The regions outside the South have not been progressing, in terms of income, quite as rapidly as the South. The South is progressing from a low base, but it is moving up.

Mr. FOUNTAIN. According to the SIE, the absolute number of poor children in the South dropped by 718,000, or 19 percent, from 1970 to 1975. And even so, the South still held 43 percent of the Nation's poor children in 1975. That appears to be a disproportionate share, giving it a poverty rate for children that was one-third above the U.S. average.

Do you have any comments as to why poverty is still so intensive in the South?

Dr. RIVLIN. That is a long, historical legacy, as you well know, Mr. Chairman. Low-productivity agriculture and the concentration of blacks in the South have been factors. These are gradually changing, and the South has been a growth area—as have been parts of the West. But I expect that it will take some decades before we see an equalization—if we ever do—of income and poverty levels between the North and the South.

Mr. FOUNTAIN. In your statement, you say that some would argue that a more comprehensive definition of poverty is needed, that counts public in-kind transfers and excludes taxes. And I believe that your CBO studies have made use of such a definition.

What is your opinion of this issue?

Dr. RIVLIN. I think it is not sensible to exclude in-kind programs entirely. The clearest case, perhaps, is food stamps. We do count cash transfers from the Government—social security or welfare benefits—as income. The official poverty definition, however, does not count food stamps as income.

But, food stamps come very close to serving as cash. Everybody has to buy food. Food stamps enable you to buy food at the grocery store in almost the same way that cash does. So the fact that you get some of your income in the form of food stamps and some in the form of cash is fairly unimportant. It seems to me sensible to include that kind of in-kind payment in the definition of income.

As one moves to other kinds of income transfers, counting income gets a little bit more difficult. Should one include the value of public housing? Certainly, this is a form of income; but there is some difficulty as to how you include it.

The extreme case, as I pointed out in my testimony, is perhaps in medicare and medicaid. Those programs provide a benefit to the poor that is a real benefit. It is something they otherwise would have had to have paid for or have gone without. And to the extent that these programs provide for the ordinary medical expenses that other people have to pay for, the benefits are certainly a form of income.

On the other hand, it is hard to say that somebody who is poor and has a medical catastrophe costing $10,000 that the Government pays therefore moved into a high-income bracket. Of course not. He is not better off; he is just a little less badly off than he would have been if he had had to absorb the expense himself or die from lack of medical care.

So there is certainly a question of how to count the medical benefits. I think the logical thing to do is to separate out the ordinary and necessary medical benefits and count those, but perhaps not to count the extraordinary ones.

Mr. FOUNTAIN. I want to say that each of you has presented very forthright and valuable testimony on this difficult area about which we asked you to speak.

I think we are all mindful of the fact that we are delving into a rather complicated, difficult, and frustrating field where there may be no really good or final answers. All we can do is to continue trying to find the best solutions possible.

Thank you so much for being here today. You have been very helpful.

We had planned to meet tomorrow, but we have some other commitments which will carry all of us through the morning. So our next meeting will be at 9:30 in this room on Thursday. The witness list for that day appears in the committee press release.

Again, we thank all of you for joining with us today.

[Material submitted for the hearings by Dr. Levitan follows:]

SAR A. LEVITAN has been Research Professor of Economics and Director of the Center for Social Policy Studies at The George Washington University since 1967. His career has combined research and teaching with government service centered in the fields of labor economics and social policy. He is also Chairman of the National Commission on Employment and Unemployment Statistics.

He received his B. S. S. from the City College of New York (1937) and his Ph. D. from Columbia University (1949). Before joining The George Washington University faculty, he taught economics at the State University of New York and at The Johns Hopkins University.

His government service has included, in addition to a stint in the Army (1942-46), work on the staff of the Wage Stabilization Board (1951-53) as the public member for reviews and appeals; specialist in labor and economic development for the Legislative Reference Service of the Library of Congress (1954-61); research director for the Senate Committee on Unemployment (1959-60); and deputy director of the Presidential Railroad Commission (1961-62).

Levitan is also Chairman of the executive committee of the National Council on Employment Policy, and member of the Industrial Relations Research Association, the American Economic Association, the National Economists Club, and the National Advisory Panel of the American Jewish Committee. He has also served on the Federal Mediation and Conciliation Service, National Mediation Board, the American Arbitration Association labor panels and a consultant to several governmental agencies and the Committee for Economic Development.

His research activities, many of which have been prepared under an ongoing grant from the Ford Foundation, have resulted in publications of more than 35 books and monographs and over 140 articles which deal largely with labor market analysis and evaluation of government programs. Recent publications he has authored or coauthored include:

The Great Society's Poor Law: A New Approach to Poverty, The Johns Hopkins Press, 1969
Antipoverty Work and Training Efforts: Goals and Reality, The Institute of Labor and Industrial Relations, August 1967
Blue-Collar Workers: A Symposium on Middle America, edited volume, McGraw-Hill Book Co., 1972
Work and Welfare Go Together (with Martin Rein and David Marwick), The Johns Hopkins Press, 1972
Old Wars Remain Unfinished: The Veterans Benefit System (with Karen Cleary), The Johns Hopkins University Press, 1973
Work Is Here To Stay, Alas (with William B. Johnston), Olympus Publishing Company, 1973
Employment and Earnings Inadequacy (with Robert Taggart), The Johns Hopkins University Press, 1975
Old Wars Remain Unfinished: The Veterans Benefits System (with Karen Cleary), The Johns Hopkins University Press, 1975
Still A Dream: The Changing Status of the Blacks Since 1960 (with William B. Johnston and Robert Taggart), Harvard University Press, 1975
The Job Corps: A Social Experiment That Works (with Benjamin H. Johnston), The Johns Hopkins University Press, 1975
Minorities in the United States: Problems, Progress, and Prospects (with William B. Johnston and Robert Taggart), Public Affairs Press, 1975
The Promise of Greatness (with Robert Taggart), Harvard University Press, 1976
Too Little But Not Too Late: Federal Aid to Lagging Areas (with Joyce K. Zickler), Lexington Books, 1976
Human Resources and Labor Markets (with Garth L. Mangum and Ray Marshall), Harper & Row, 2nd ed., 1976
Jobs for the Disabled (with Robert Taggart), The Johns Hopkins University Press, 1977
Shorter Hours, Shorter Weeks (with Richard Belous), The Johns Hopkins University Press, 1977
Programs in Aid of the Poor, 3rd edition, The Johns Hopkins University Press, 1977

His latest study dealing with the military as an employer is slated to be published this year by Sage Publications.

WHO'S WHO IN AMERICA, Vol. II, 1976/77

LEVITAN, SAR A., economist, educator; b. Shaulai, Lithuania, Sept. 14, 1914; s. Osher N. and Yocheved (Rapoport) L.; came to U.S., 1931, naturalized, 1935; B.S., Coll. City N.Y., 1937; M.A., Columbia, 1939, Ph.D., 1949; m. Brita Ann Buchard, Oct. 15, 1946. Asst. prof. econs. State U. N.Y., Plattsburgh, 1946-51; pub. mem. rev. and appeals Wage Stblzn. Bd., Washington, 1951-53; specialist labor and econ. devel. Legis. Reference Service, Library of Congress, 1954-60; faculty George Washington U., Washington, 1962-63, 67—, dir. Center Manpower Policy Studies, research prof. econs., 1962-63, 67—; st. economist W.E. Upjohn Inst., Washington, 1964-67; cons. in field. Mem. Nat. Manpower Policy Task Force, 1967—, chmn., 1973—. Served to capt. AUS, 1942-46. Ford Found. grantee, 1962, 67. Mem. Am. Econ. Assn., Indsl. and Labor Relations Research Assn. Author: Federal Aid to Depressed Areas, 1964; Federal Training and Work Programs in the Sixties, 1969; The Great Society's Poor Law: A New Approach to Poverty, 1969; Blue-Collar Workers, 1970; Big Brother's Indian Programs—With Reservations, 1970; Human Resources and Labor Markets, 1972; Work and Welfare Go Together, 1972; Programs in Aid of the Poor for the 1970's, 1973; Work Is Here to Stay, Alas, 1973; Swords Into Plowshares: Our GI Bill, 1973; Old Wars Remain Unfinished: The Veterans Benefit System, 1973; The Emergency Employment Act: The PEP Generation, 1974; Employment and Earnings Inadequacy, 1974; The Quest for a Federal Manpower Partnership, 1974; Still A Dream: The Changing Status of Blacks Since 1960, 1975; Indian Giving: Federal Programs for Native Americans, 1975; Minorities in the United States, 1975; Child Care and ABC's Too, 1975; The Promise of Greatness, 1976. Home: 1280 21st St Washington DC 20036 Office: 1819 H St NW Washington DC 20006

Testimony of Sar A. Levitan
Before House of Representatives
Intergovernmental Relations and
Human Resources Subcommittee
of the
Committee on Government Operations
July 19, 1977

Mr. Chairman, My testimony is based on a study I prepared recently for the Ford Foundation. With your permission I would like to summarize briefly my findings and include the study as part of the subcommittee's record.

The public's changing views of AFDC recipients over the past 15 years have spurred a series of federal work and training programs aimed at relieving AFDC caseloads. These efforts have included "working off" relief, "rehabilitation" through social services, comprehensive training, and job creation. The frequent changes in emphasis have reflected a frustrating evolution from early optimism to skepticism about the government's ability to effect reform.

Seeking a scapegoat for the limited success of workfare programs in "solving" welfare problems, the blame has been placed on the alleged laziness of recipients and bureaucratic bungling. In fact, a more critical determinant appears to be the extent to which the welfare population can find a niche in the labor market. This perspective has been ignored all too often by policy makers and evaluators.

Welfare recipients' employability hinges not only on their "motivation," but on the state of the labor market and the characteristics of the welfare population. An examination of recipients' characteristics suggests that, for many public assistance clients, achieving full independence is an unrealistic goal. With suitable training, supportive services, job opportunities, and work incentives, many more welfare recipients could work and earn money. But these earnings could in most cases only supplement, and perhaps partially substitute for, public assistance--not completely replace it.

Employability is a complex balance of economic, social, and psychological factors, and attempts at precise measurement must be inconclusive. On the supply side, employability is usually associated with work experience, education, race, and skills, and the absence of health problems, child care responsibilities, and other barriers. In these areas, AFDC mothers and fathers are disadvantaged in comparison with the rest of the population. However, the weight of the evidence suggests that their commitment to the work ethic is no less than that of non-recipients.

On the demand side is the fact that even in the best of times the labor market does not provide jobs with adequate incomes to millions who work diligently, not to mention those who remain unemployed. More than one-fourth of the 63 million wage-and-salary workers in May 1976 earned less than $3.00 and about one-tenth earned less than $2.25 an hour. The usual jobs that AFDC recipients fill stand them in poor stead because they compete for work with millions to whom low wages and intermittant employment is a way of life. Moreover, the future growth prospects of these jobs--nationwide--are not good, and many AFDC recipients live in areas whose economy may be declining. What these extra dimensions of the problem imply then is that there is a great deal of middle ground between complete welfare dependency and a full time job that returns an adequate income.

Against this backdrop of circumstances more complex than some officials care to admit, policy makers have advocated workfare measures that seem perversely at odds with what the conditions seem to demand. Many workfare efforts seem premised on the view that the public assistance population is a stagnant mass which can be chipped away, little by little, until its great bulk is reduced. In fact, turnover is considerable. Of the 3.4 million cases on the rolls in January 1975, 1.5 million were closed in that year. About one-fifth of these families were able to get off public assistance because of employment or increased earnings.

This would indicate that for many, life at the margin of economic self-sufficiency is full of changing conditions in which only small changes can spell the difference between work and public assistance. Yet in spite of the fact that for many the choice is not simply between work and welfare, the Work Incentive program--the Federal government's main vehicle for increasing the economic self-sufficiency of welfare recipients--has been conducted with a single-minded purpose of getting recipients off public assistance completely.

WIN has been an expensive attempt to fit the problem to the solution. It has changed through the years ostensibly to improve the program's performance, but also to reflect the public sentiment towards those "on the dole." Through its frequent reformulations, the Work Incentive program has carried a price tag totalling more than $1.5 billion since its inception, including $300 million for the past year. When it started, WIN was an "all-out effort to direct manpower and social welfare services to a common goal." But the administration soon grew disenchanted with expensive efforts to train or retrain welfare recipients. Instead of offering a rich diet of training, job placement, child-care, social and follow-up services for the few, WIN has moved increasingly to providing a meager diet for many.

Although WIN officials parade impressive statistics on placements and welfare savings, the proper focus must be on what WIN accomplishes that would not otherwise occur. For example, the Labor Department claimed that more than 2 million persons participated in WIN during fiscal 1976; 675,000 received services to improve their employability; 211,000 found full-time unsubsidized jobs and 20,000 more found part-time jobs; however, based on past experience, probably not more than one-third of these persons were able to leave the welfare rolls. Most evaluators have found that WIN's "net" benefits are small and that claims of welfare savings are highly optimistic.

Impatient with WIN's slow progress, the federal government and some states and localities have approached workfare from different angles, and with varying success. The federal government has moved to integrate WIN with other employment and training efforts and has also funded modest job creation programs. States have tried two additional, and coercive, methods: (1) making welfare recipients "work off" their assistance, along the lines tried unsuccessfully in the early 1960s, and (2) requiring AFDC recipients to search for jobs, similar to work requirements for food stamp and unemployment insurance recipients.

Some basic conclusions to guide future policy emerge from an assessment of recent efforts to replace welfare with work and training programs.

1. Despite the multiple problems faced by AFDC recipients, they are not

a distinctive homogeneous population. There is considerable turnover within the welfare population, and recipients are no less committed to the work ethic than the rest of society.

2. Carrots are preferable to sticks in bringing about change. Limited employability brought most AFDC recipients on to the public dole in the first place and strict work requirements have only limited effect, especially when many other persons are unemployed. On the other hand, job creation, skill training, and real work incentives offer substantive help to recipients.

3. Real improvements will be costly. Job creation, skill training, and child care are effective, but also expensive. Providing such services to a significant proportion of AFDC recipients will require a substantial commitment of resources. On a more limited scale, there are proposals to use public assistance funds to create jobs for welfare recipients. Simple arithmetic shows that addition funds will be needed to provide decent jobs (at $7,000 or so a year, plus perhaps another $1,000 for child care and other expenses) for persons currently receiving welfare (at $3,500 or so a year). Such jobs must provide enough after-tax earnings to increase recipients' spendable income--not just allow them to "work off" their relief checks--but there would be no shortage of willing takers for good jobs. Although higher outlays are required, there is considerable appeal in getting a year's worth of public service in return for $8,000 in wages instead of getting nothing in return for $3,500 in welfare.

4. Goals for public policy should be realistic. Because of high costs, it is not likely that society will commit billions upon billions for job creation and other programs. Accordingly, there is no escaping the conclusion that many AFDC recipients' earnings will do no more than supplement their welfare checks.

5. Stronger local ties between WIN, local employment service offices, and sponsors of employment and training programs could produce more efficient administration and operations. However, integration can accomplish little if adequate funding is not forthcoming. Going a step further, consolidating job search efforts under AFDC, food stamps, and unemployment compensation would also improve administrative efficiency.

Proposals to replace welfare with work may make appealing campaign slogans, but unrealistic expectations will breed a sense of futility. A realistic program would view workfare as complementing welfare--not *either* work *or* welfare! Such a program would realize that in the foreseeable future millions of Americans will be among the working poor--even if they can find and keep steady jobs. For these people the work alternative will not magically pull them up over the poverty threshold.

Samuel Johnson enuniciated the criterion that "A decent provision for the poor is the true test of civilization." To meet Johnson's test, public policy must recognize that for millions of needy Americans work and welfare go together.

WORK AND WELFARE IN THE 1970S

by

Sar A. Levitan
Center for Social Policy Studies
George Washington University

The Sixties: A Decade of Change

Public assistance to this country's needy has been limited, with a few notable exceptions, to aid at the margin of subsistence. The goal was to discourage those with alternatives from turning to the public dole.

Aside from modest increases in welfare rolls and costs during the Social Security Act's first quarter-century, the public assistance programs changed little from 1935 to 1962. However, the last decade and a half witnessed a number of significant developments in program structure and outlays. These, in turn, contributed to changed public perceptions of welfare in relation to work and brought forth a series of federal initiatives in response to problems perceived as a welfare crisis rather than a social and economic one.

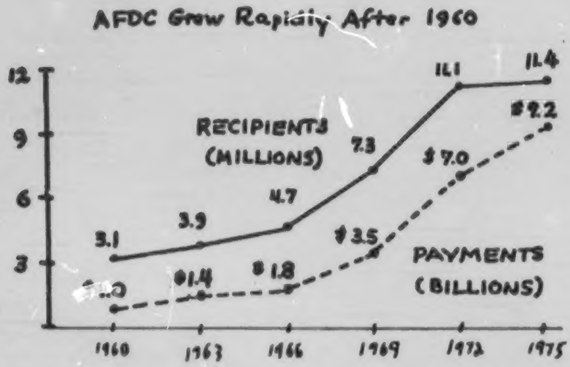
The Changing Caseload

As the number and characteristics of beneficiaries and the cost of benefit payments changed during the decade, public perceptions changed in response, bringing demands for reform.

The number of AFDC recipients grew fairly steadily from the programs's beginning, approximately doubling each decade between 1936 and 1966. But, largely because of broadened eligibility and increased benefits, the number of recipients doubled again by 1970, rising from 3.1 million in 1960 to 11.4 million in 1975.[1] Costs rose even faster, from just under $1 billion in 1960 to $3.5 billion in 1969 to $9.2 billion in 1975.

At the same time, widows and orphans, the program's main beneficiaries in its

~~3.1 million in 1960 to 11.4 million in 1975. Costs rose even faster,~~



early years, were replaced by a needy population perceived by many as much less "deserving." The program increasingly served children whose fathers were not dead or disabled, but absent from the home or unemployed.

In 1942, the father in three of every five AFDC families was dead or incapacitated, and five-sixths either had never married the mother, were separated or were divorced. By 1973, however, only one in eight was dead or incapacitated, and five-sixths had never married the mother, were separated or were divorced.

In 1962, the federal government allowed states to extend AFDC coverage to families headed by an unemployed parent -- in reality an unemployed father.[2] This is known currently as AFDC-UF. About half the states have exercised this option, and AFDC-UF accounts for a mere five percent of total AFDC rolls. Nonetheless, this extension had profound implications.

The need for the 1962 law was clear: because the original Social Security Act denied assistance to families headed by an able-bodied father, the whole family was penalized if the father could not find employment. And because AFDC recipients were presumed to be outside the work force until enactment of AFDC-UF, public assistance funds had not been available to provide work. However desirable, the amendment made untenable the presumption that AFDC adult recipients were unemployable and outside the labor force. The presence of "employable" parents on relief prompted Congress in 1962 to amend the Social Security Act to subsidize employment programs for relief recipients.

At the same time, society's attitudes about working mothers changed. It was traditionally assumed that a mother belonged in the home with her children. In 1940, only nine percent of mothers were in the work force. Three and a half decades later, 43 percent of all mothers were working, including 31 percent of mothers with children under three years of age.

Public perceptions of the welfare population also changed. Early optimism and rising payments soon gave way to skepticism about our ability to "reform" the system.

The Response

Federal Initiatives of the Sixties

Community work and training. The 1962 extension of assistance to unemployed fathers was accompanied by encouragement for states to adopt community work and training (CWT) programs, whose purpose was twofold: (1) to allay public criticism of relief payments to employable persons; and (2) to create work relief projects which would train and "rehabilitate" recipients. "Working off" relief was justified as being better for recipients' morale and as providing useful public services under safeguards preventing exploitation and the displacement of regular workers. CWT's formal emphasis on training and rehabilitation reflected the nascent movement in the early 1960s toward more organized work and training programs for the unskilled and poor. The program designers and administrators believed that welfare recipients needed rehabilitation and that the provision of social services was the best means to achieve the goal. Accordingly, emphasis was placed on strengthening family life rather than on work.

Noble intentions notwithstanding, CWT was of little benefit, because of several key shortcomings:

-- Recipients had no monetary incentive to participate in CWT, and few appreciated the opportunity to "work off" the meager assistance they received. A consistent feature of all projects, which varied considerably otherwise, was a prohibition of additional income (other than work-connected expenses) for work performed. Instead, participants were required to "work off" no more than an amount equal to the assistance they received, usually at the prevailing community wage rate for comparable work.

-- CWT projects provided little training that would improve participants' employability. The bulk of the funds was expended for income maintenance, leaving very little for other assistance.

-- Project sponsors also had weak incentives. Each state or local dollar for CWT brought forth only one federal dollar, whereas the federal government matched each state-local dollar for social services with three federal dollars. Moreover, project sponsors had to contribute all of the costs of supervision, materials and training on CWT projects, in addition to their regular matching share of public assistance. These arrangements tended to reinforce the more traditional "social services" associated with public assistance, since most states and localities -- in order to maximize federal contributions -- chose to expand social services rather than set up CWT projects.

Social Services. The 1962 Social Security amendments were premised on providing "rehabilitation instead of relief," to use President Kennedy's phrase. The primary vehicle to implement this strategy was to be social services -- the process of sorting out an individual's or family's problems, offering counseling and providing a referral to other appropriate community services.

The 5-year experiment initiated by the 1962 amendments was largely an effort to apply the experience of professional social workers in voluntary agencies to a mass public program. However, by 1967, when the initial authorization was due to expire, very little progress had been made in clarifying the needed components of the prescribed social services, or their effects in enhancing AFDC recipients' employability.

One serious problem was the extent to which social services were able to increase employability. Efforts to determine the services needed by all AFDC recipients consumed substantial staff-time and generated an inordinate amount of paperwork, contributing to delays in processing applications and responding to requests for emergency assistance. The added work, however, produced few referrals to other community agencies. Thus, caseworkers were neither providing services themselves nor helping their clients to receive them elsewhere.

The 1967 Social Security amendments specified that services be more concrete and directly related to the problems of family structure and work behavior. Despite this refocusing, a 1973 report found that social services had only a minor impact on directly helping recipients develop and use the skills necessary to achieve self-support. Moreover, the study concluded that it was unrealistic to expect social services to play a major role in helping recipients reduce their dependency, given the nature of services, the method for determining who receives them and existing economic constraints.[3]

However, it must be emphasized that social services can be valuable for many other reasons. A 1973 HEW study found that half of AFDC families had received services during the previous year.[4] Some families received more than one type of employment assistance: 23 percent of the families were reported to have received a referral for work or training, 14 percent received employability assessments, and seven percent received vocational rehabilitation. Other common types of services offered were:

Type of service	Percent of families
Health	39
Employment (other than WIN)	31
Family planning	24
Child care	19
Education	19
Transportation	12

More than half of the educational services were provided to children rather than to giving adults basic education or high school equivalency.

Work Experience and Training. Even while social services were being evaluated for their rehabilitative potential, the Economic Opportunity Act of 1964 expanded the work program. Under Title V, state and local welfare agencies received grants to pay the full costs of establishing "demonstration" Work Experience and Training (WET) projects and to provide for the expansion of existing projects. In addition to unemployed parents on relief, "other needy persons," including single adults, were declared eligible; but 70 percent of Title V clients were recipients of federally supported public assistance. The program reached its peak enrollment of 71,000 in 1967, divided equally between the sexes. Three of every five participants were white.

The additional funds allotted to this effort and the broadening of eligibility reflected an increasing realization that low national unemployment rates might not be sufficient to assure a job for everyone who wanted work. Even though unemployment dropped throughout the 1960s, certain groups continued to experience considerable joblessness. A basic tenet of the antipoverty effort was an attempt to reach out and help persons who could not compete in the labor market and remove the "structural" barriers to their unemployment.

Whatever the rhetoric, the welfare agencies responsible for the administration of Title V projects found it difficult to expand their activities beyond traditonal income support efforts. With little or no prior experience in training or placement, or awareness of labor market operations, the state and local welfare agencies were hard put to design work experience projects which would enhance the employability and earning potential of enrollees. Despite laudable goals of rehabilitation and uplift, WET remained primarily a work relief and income maintenance program.

The Work Incentive Program (WIN). The poor record of WET did not discourage Congress from further attempts to induce welfare recipients to seek work. Perhaps the best indicator of Congress' jaundiced view of welfare was the 1967 attempt to "freeze" the AFDC rolls. The "freeze" was repealed before going into effect, but the efforts to improve the employability of welfare recipients persevered under the Work Incentive (WIN) program of 1967.

WIN was designed to do gradually what the freeze would have done abruptly -- stop the growth of welfare and then reverse the trend. The Labor Department had responsibility for training and employment, while HEW screened and referred enrollees and provided supportive services. HEW's intention in WET to "rehabilitate" relief recipients by improving their total environment had produced too few results. The Labor Department was expected to focus more clearly on employability.

WIN's tools reflected the emphasis on rehabilitation through work rather than social services. There was also a work requirement for able-bodied fathers, out-of-school youths sixteen or over and other adults besides parents. Services after enrollment were again designed more clearly to lead to jobs. Finally, follow-up services were to be provided for three to six months, and an enrollee must have continued in employment throughout that period to be considered a "graduate."

The best-laid plans of program administrators, however, oft go awry. For all its lofty intentions, WIN encountered numerous obstacles. Because the number of potential enrollees far exceeded program capacity, priorities were established to govern the flow of entrants. But there were problems in identifying the more employable recipients and in arranging necessary medical care, day care, transportation, and other supportive services.

Once in the program, enrollees encountered difficulties in moving from one component to another and finally into a job. In the fall of 1971, more than one in every four enrollees was in a waiting status -- before initial training, between components or between completing training and job placement. Classroom sessions accounted for the bulk of training. On-the-job training developed slowly, due in part to administrative problems and in part to employers' reluctance. Moreover, the public service component -- dubbed "special work projects" -- never got off the ground because of complex financial arrangements, and antipathy for what was viewed by some as make-work. (One congressman referred to the effort as "a WPA project with Rube Goldberg financing.") Other manpower programs were little used, accounting for only 6 percent of WIN enrollees.

Partly as a result of these problems, relatively few enrollees graduated from WIN, and the average cost of each "success" was probably between $4,000 and $5,000. Given the substantial needs of most WIN enrollees for expensive skill training and of women enrollees for costly child care, these outlays were not surprising. Although WIN did not -- indeed could not -- stem the tide of welfare, it did raise earnings and reduce welfare payments for successful graduates.

WIN-2. Congress was impatient with such limited and costly results. Although WIN was not operational in all states until 1969, Congress required a redirection of the program within two years. The 1971 Social Security amendments, known as the Talmadge amendments, went into effect in July 1972.

They were designed to close the gap between WIN and work by requiring that all AFDC recipients, unless specifically exempted, register for WIN, and that at least one-third of manpower funds be expended for on-the-job training and public service employment. To further these aims, state welfare agencies were required to establish separate administrative units to provide WIN social services. Fifty percent of manpower funds were to be allocated through a formula based on WIN registrations, and state welfare agencies were required -- under threat of financial penalty -- to certify that at least 15 percent of those obligated to register had been provided all supportive services necessary for participation.

Because of concern that states were reluctant to participate due to high costs, the federal matching share was raised from 80 to 90 percent for manpower and from 75 to 90 percent for social services. At about the same time a tax credit was established for employers who hired WIN enrollees.

Despite the rapid shift in WIN's emphasis, expenditures grew steadily. Starting at $27 million in fiscal 1969, outlays for employment and training grew to $316 million in fiscal 1976. However, the mix of services shifted to reflect changing program emphasis. For the first four years manpower services consisted almost exclusively of classroom training. Thereafter, emphasis shifted from classroom training to on-the-job training, public service employment, and job placement:

	1969	1970	1971	1972	1973	1974	1975	1976	1977 (Estimated)
Total	$27	$67	$94	$131	$178	$218	$276	$246	$298
Classroom training	25	65	86	118	71	47	55	42	45
On-the-job training	1	1	2	4	33	58	81	91	98
Work support	1	1	6	9	15	5	8	12	12
Public service employment	--	--	--	--	--	34	66	58	67
Job placement	--	--	--	--	59	74	66	43	76

Source: U.S. Office of Management and Budget

Under WIN-2, training declined and placements rose. But many problems remained, and the value of WIN was still open to question. In 1976 the administration announced that it would seek legislation to completely eliminate skill training components from WIN. Enrollees in need of such services would have to compete with many others in local projects funded by the Comprehensive Employment and Training Act, while WIN would remain only as an employment exchange and work-requirement enforcer.

Net Effect of WIN. Those who have studied WIN -- the General Accounting Office, Labor's contracted evaluators and Labor's own internal analysts -- are generally agreed that the net effects of the program are meager. Although WIN officials parade impressive statistics on placements and welfare savings, the proper focus must be on what WIN accomplishes that would not otherwise occur.

Under WIN-1, despite considerable attrition and high costs, there was hope that skill training and other substantive services would significantly upgrade some enrollees' employability over the long term. Under WIN-2, which also suffers high attrition, there is little pretense about increasing enrollees' employability, and it is unrealistic to claim long-term benefits. At best, job placement services and pressures to accept jobs probably result in getting enrollees back to work a few weeks or months earlier than would have occurred in the absence of WIN, netting correspondingly small benefits.

An evaluation of WIN-2 prepared under contract for Labor concluded that overall benefits were generally small and that only those who received training or other substantive services had gained much from participation. Such training is, of course, being inexorably reduced, leaving WIN as nothing but another job placement effort which was precisely the type of activity found to have very little payoff.[5]

Since WIN suited administration ideology and was in line with the prevailing political mood, the Labor Department's claims about welfare savings attributable to the WIN program were to be expected. The department claimed that as a result of WIN operations, welfare grants were reduced in fiscal 1975 by $152 million. In addition, it was asserted that outlays for food stamps were cut by $60 million and Medicaid by $39 million, bringing the total first-year savings to $251 million. Then, based on the assumption that the savings would remain in effect for two years, Labor doubled the first-year figure to reach a total savings of half a billion dollars.

These estimates are clearly highly optimistic. WIN's selection process overtly selects the most employable registrants. But these are the very people who are most likely to be able to find jobs on their own and are most likely also to leave welfare sooner than the average case. Most of the WIN enrollees who found employment did so directly, with no WIN employability services. In light of these factors, it may be difficult to demonstrate that AFDC recipients get off the rolls more quickly as the result of WIN and, hence, that WIN can claim much in the way of welfare savings. At a minimum, it is highly doubtful that WIN results in savings equal to its costs. Failing this test, WIN might be justified in terms of its deterrent effect on potential AFDC applicants, but this would represent a mean and petty approach on the part of an affluent, and ostensibly just, society. Whatever the intent of WIN sponsors, the program might best be justified on the grounds that it attempts to provide the needy with a supplement or an option to welfare even if direct outlays exceed savings in public assistance.

A detailed description of the operation of WIN will be found in appendix A.

Other Approaches

Meanwhile, a series of federal, state, and local projects experimented with work tests and work relief. The most stringent of these represented a return to the "working-off" approach of CWT, bringing work and training programs for welfare recipients full circle back to their beginnings. At the same time, new approaches to job creation and work supports for welfare recipients were being developed, with results that offer grounds for guarded optimism. Each of these programs will be explored in a later chapter.

The Real Issue: Supply and Demand

The return to local work relief and the elimination of skill training from WIN seemed to acknowledge the futility of taming welfare through workfare. Faced with the ineffectiveness of the whole range of approaches, public policy had run out of new ideas, and -- in essence -- gave up in futility. What is required is a more realistic assessment of the issues and an adjustment of the expectation that welfare can be entirely supplanted by work.

The lack of overriding success garnered by the welfare training and employment programs cannot be laid solely at the doorstep of "poor planning and management" or blamed on the bureaucrats. It is more to the point to recognize that the extent to which workfare can solve welfare problems depends on whether the welfare population is able to find a niche in the labor market.

The fact is that welfare recipients' employability depends on the state of the labor market and the composition and characteristics of the welfare population. Given these features, the relevance of workfare to welfare depends upon the degree to which these characteristics can be altered by public policy. The public debate over AFDC frequently has been mired in rhetoric instead of grounded in reality. The issue of whether welfare mothers can work has been confused with the issue of whether they should work, whether jobs are available, and at what rate of pay. Due to the insistence that work and welfare be treated as mutually exclusive, the ability of welfare recipients to enter the labor market and earn some money has been confused with their ability to achieve total economic self-support.

An examination of recipients' characteristics suggests that, for many on relief, achieving full independence is an unrealistic goal. With suitable training, supportive services, job opportunities, and work incentives, many more welfare recipients could work and earn money. These earnings, however, could only supplement, and perhaps only partially substitute for, public assistance, but they could not completely replace it.

Employability is a complex balance of economic, social and psychological factors, and attempts at precise measurement must be inconclusive. On the supply side, employability is usually associated with work experience, education, race, and skills, and the absence of health problems, child care responsibilities, and other barriers.

Demand conditions depend upon general labor market constraints in providing adequate incomes for even people who work diligently, and the opinions of potential employers on the productivity or employability of job applicants.

Supply: A Profile of the Welfare Population*

Labor Force Participation. A good starting point for an analysis of AFDC recipients' place in the labor market is a review of their participation in the work force and the extent to which employment provides an escape from welfare.

Considering men, there was a natural or adoptive father present in one of eight AFDC families in 1973. Yet more than half of these fathers were incapacitated and many others were either working (but no more than 100 hours a month or they would not have qualified for AFDC-UF) or were looking for employment.

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*The statistics on AFDC recipients in this section are generally derived from HEW's 1973 study of recipient characteristics. In most cases information was not available about some of the recipients and was reported as "unknown," but this proportion varied from question to question. The following statistics are generally adjusted to assume that the unknown group had the same characteristics as other recipients. The 1973 study is entitled U.S. Department of Health, Education, and Welfare, Findings of the 1973 AFDC Study. It comprises four parts, on demographic and program characteristics, financial circumstances, services to families, and discontinuances of AFDC money payments during 1973, which are dated from June 1974 to January 1975.

Among AFDC mothers, who were not subject to the 100-hour limit (and probably were not pressured as much by the authorities to get a job), a larger proportion worked, but fewer sought employment. Some were out of the labor force because they were incapacitated, but the largest group comprised those who reported they were needed as full-time homemakers.

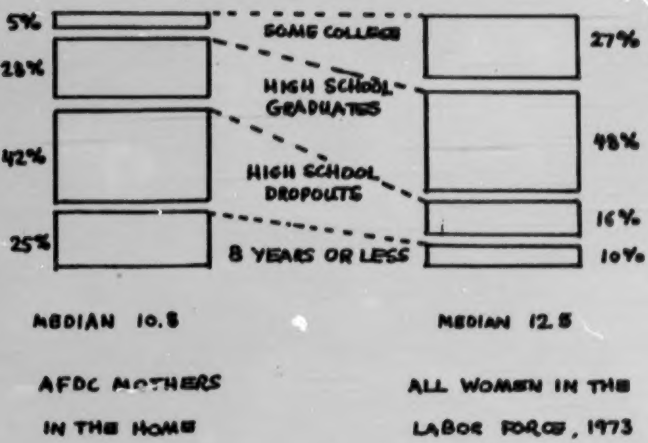
	Fathers in the home	Mothers in the home
Number	379,000	2,794,000
Employed, total	12%	16%
Full time	5	10
Part time	6	6
Actively seeking work	28	12
Not actively seeking work (includes those in a work or training program)	5	17
Needed as full-time homemaker	2	47
Incapacitated	54	8

Education. Although education's value in the labor market may be diminishing, a college degree or high school diploma is still an important asset in the labor market. With the expansion of AFDC, the educational attainment of female family heads has risen rapidly over the last dozen years, but their accomplishment, and even more so that of the AFDC fathers, trails the rest of the population.

School years completed	Fathers in the home	U. S. civilian male labor force, 18 to 64 years, 1973
Less than 5 years	22%	2%
5 to 8 years	32	12
High school dropouts	26	16
High school graduates	15	38
Some college	5	32
Median years completed	7.8	12.5

AFDC mothers are not as far behind. A quarter completed no more than eight years (compared to one-tenth of all women in the labor force), and only a third of AFDC mothers were high school graduates or had entered college (compared to three-quarters of all women in the labor force):

AFDC Mothers Are Poorly Educated



Health. Poor health is another major handicap to employment. Disease and poverty tend to reinforce each other. Inadequate diet, poor housing and deficient medical care, often the results of low income, are not conducive to labor productivity. A study conducted by HEW in ten states found that poor persons were twice as likely to be low or deficient in several important nutritional criteria.[6]

Physical and mental disabilities are widespread. According to a 1972 survey, there were over 15 million persons who judged themselves to suffer from a disability, including:

-- 7.7 million "severely disabled," who were unable to work regularly or at all;

-- 3.5 million "occupationally disabled," who could work but not in their predisability occupations; and

-- 4.4 million with "secondary work limitations," who could continue in the same job but were limited in the amount of work they could perform.

The unemployment effects of disability are severe; the disabled are more likely to be unemployed, work fewer hours, and earn less money.

Nearly all nondisabled 18- to 64-year-old males worked in 1971; only 72 percent of disabled males worked. The disabled accounted for 71 percent of all working-age males not employed or looking for work and for a fourth of jobless men. Among women, the disabled apparently drop out of the work force rather than continue a futile search for work.

Among employed men, two-thirds of the nondisabled worked full-year, full-time, compared to only one-fifth of the disabled. The employed nondisabled worked an average of 41 hours weekly, while the severely disabled worked an average of only 26 hours. The annual earnings of disabled males with work experience were 69 percent those of the nondisabled, and the severely disabled earned less than half as much. Thus, poor health has widespread and severe impacts on those affected.[7]

However, the impact of ill health on labor force participation by AFDC recipients is difficult to assess. AFDC-UF fathers are presumably more or less able to work, while other AFDC fathers are presumably incapacitated. Among AFDC mothers, there is a high incidence of health problems according to a 1968 study by HEW: one mother in five said her health kept her from working altogether and two in five said there were some kinds of jobs they could not get because of their health.[8]

Work Experience. Even for those who are not currently employed, recent work experience is an asset to keeping work skills sharp, retaining job search techniques, and maintaining information and contacts for job openings. As would be expected, AFDC fathers have more recent work experience than do AFDC mothers, and most fathers who have been out of work for more than two years are probably incapacitated:

	Fathers	Mothers
Currently employed	12%	20%
Formerly employed	87	53
Less than 1 year ago	26	13
More than 1 year ago	48	33
Unknown	12	8
Never employed	1	27

Although proportionately more AFDC mothers are currently employed, those who are not working may have been out of the labor force for a long time. At least one-quarter have not been employed at any time during the last three years and another quarter have never held a job.

Child Care. The presence of young children is the most obvious handicap to the employment of a majority of mothers and certainly is no less a problem for those on AFDC. Nonetheless, more than one of every four married women with a husband present and with children under three years is in the labor force. The rate is about one in six for AFDC women with children under three years. It is increasingly acceptable for mothers to leave their children in someone else's care while they work. And although the limited supply of day care facilities is a severe constraint for some mothers, many others have managed to make arrangements.

In 1973, about five of every eight welfare mothers had a child under age six years; another two had no child under six years but one under 13; only about one in eight had only children age 13 years or over. This means that more than 60 percent of AFDC mothers may need full-time, year-round day care if they are to work. Another quarter may need care in the afternoon during the school year and all day during the summer.

However, according to HEW estimates, the total capacity of licensed day care centers and family day care homes in 1973 was only 1.2 million. At the same time, there were some 2.6 million AFDC children less than six years old who required full-time care, and another 2.7 million between age six and 12 years who presumably needed part-time care, if the mothers are working and not available to care for them. Licensed facilities obviously fall far short of being able to accommodate the welfare children, and, of course, another 13 million working mothers are competing for these facilities.

Nevertheless, the mothers of nearly 27.6 million children, including 6.5 million under six years of age, were working in March 1975. These working mothers accommodated themselves in a variety of ways to the paucity and cost of licensed facilities. The types of child care arrangements used depend primarily on the number and age of the children and on the availability of relatives to provide inexpensive services.

In a nationwide survey of employed mothers between 30 and 44 years of age with minor children, only two in five reported the need to make regular child care arrangements, but the proportion rose to seven in ten among mothers with one or more children under age six years. However, few of these mothers used licensed facilities. Only one mother in eleven used a child care center. The others used, equally, relatives and nonrelatives in either the child's or the caretaker's home.[9] Thus, informal arrangements -- which are not subject to licensing -- constitute the bulk of child care.

Day care can be quite expensive. It is estimated that arrangements meeting 1974 federal standards ranged from $1,770 for "minimum" care, $2,650 for "acceptable" care, and $3,300 for "desirable" care per year. Care meeting even the lowest of these standards is likely to be the exception rather than the norm. A 1972 study found that the cost of care varied considerably by type: $2,110 for a day care center, $1,180 for in-home care, and $660 for family day care. Each of these had its own strengths and weaknesses, and -- somewhat surprisingly -- the quality of care delivered was about the same under the three forms.[10]

Costs differ according to the age and number of children. Because preschool children must be supervised for a longer period each day and also more carefully, daily costs rise substantially when a child under age six years is present. And costs increase when more than one child needs care. Also, child care expenditures rise with earnings. Not only can parents with higher incomes afford to spend more, but better-paying jobs bring responsibilities that may require more reliable care lasting over a longer span of hours.

Largely because the potential demand is so much greater than the available supply, lack of formal child care has been considered a major obstacle to welfare mothers' employment. Overemphasis on the scarcity of child care facilities, however, may divert attention from the ability of these mothers to locate such services on their own (including free care by friends or relatives), and from the incentives needed to make such arrangements. A woman's willingness to bear the costs of leaving her child or children depends largely on the expected benefits of doing so -- especially on the potential earnings. An HEW-sponsored survey in 10 cities found that two of every three welfare mothers sampled said "they could make 'arrangements' [for child care] to work if a good job were available."[11]

Race. Although the proportion of minority race and Spanish speaking AFDC families, compared to all families in the program, has not rapidly increased in recent years, they currently account for about three of every five welfare families:

White	Spanish origin or descent	Black	American Indian and other
38%	14%	46%	2%

There is little question that, despite recent progress toward equality, these minority groups still encounter disproportionate labor market difficulties.

The manifestations are many and are shared by minority men and women alike, although the following data apply only to women. White female family heads experience less unemployment than blacks, work in better paying occupations and consequently are less likely to be in poverty if they are in the labor force. Although the following data contrast whites with blacks, other minorities face comparable problems:

-- In March 1974 unemployment among female family heads with children was twice as high among blacks (14 percent) as among whites (7 percent).

-- The mean annual wage or salary earnings of female family heads in 1974 was nearly two-fifths better for whites ($7,400) than for blacks ($5,340);

-- Not only were nonwhite female family heads more likely to work in lower paying occupations, but within every occupation they were more likely to be poor. The difference was slight in 1974 among the relatively few professional and managerial workers but substantial among the far more numerous clerical and sales workers, transportation and other equipment operators, and service workers.

-- Even among those who worked at a full-time job all year or much of the year, blacks were more likely to be poor in 1974. The proportion of female-headed families in poverty among full-time, full-year workers was 6 percent for whites and 15 percent for blacks; among those who worked full-time for most of the year (40 to 49 weeks), 14 percent for whites and 42 percent for blacks.

-- Blacks experience more poverty at every educational level. This was even true of high school graduates (17 percent of whites versus 44 percent of blacks) and of those with some college (12 percent of whites versus 20 percent of blacks).

"Investment in human capital," as economists call it, seems to pay off less for blacks than for whites, and in urban ghettoes the returns to nonwhites are extremely small. Education does not appear to make the same dent in unemployment or cause the same boost in earnings when ghetto and nonghetto populations are compared.[12]

Thus, because of more unemployment and lower earnings for all occupations and educational levels, black female family heads were more than twice as likely as whites in 1974 to be poor and about three times as likely to receive AFDC benefits. Discrimination is important not only because it induces members of minorities to rely on AFDC, but also because it decreases their ability to earn enough to escape relief.

Work Incentives

The treatment of income earned by AFDC recipients is a crucial variable in the choice between, or combination of, work and welfare. The foregoing review of factors affecting AFDC recipients' decision to enter the work force provides an indication of the extent to which workfare can compete with welfare. But in the absence of an effective work requirement (difficult to implement under the best conditions), the decision to work depends on the incentives offered for working, including both financial and psychological factors. AFDC recipients' work incentives can be studied from three perspectives: (1) the relationship between work and existing incentives; (2) interviews with welfare recipients and others; and (3) the results of social experimentation.

Despite rhetoric favoring self-support, government policy long stifled welfare mothers' initiative. During AFDC's first three decades, many states treated the earnings of AFDC recipients as income available to fulfill predetermined needs, and assistance payments were reduced accordingly. Although work expenses were typically not subject to this tax, allowing a recipient to keep a dollar of earnings for each dollar spent on transportation or work tools added nothing to the family's disposable income. This "100 percent tax" inevitably forestalled AFDC recipients' attempts to achieve financial independence.

Not until implementation of the 1967 Social Security amendments did public policy reflect the realization that welfare recipients, like everyone else, would be spurred to seek work by monetary incentives. For the first time, all AFDC recipients had real work incentives. The amendments provided that the first $30 of earnings, one third of the remainder, and work expenses would be "disregarded" in computing a family's welfare grant. Although this undoubtedly represented a step in the right direction, the tax rate implicit in this "$30 and a third" disregard was steep, subjecting net earnings above $30 a month to a marginal tax rate of 67 percent. The general populace faces such a steep rate only at incomes above $160,000.

Just as many taxpayers find ways to lighten their tax burden, a state's calculation of the disregard can considerably soften AFDC recipients' tax bite. The GAO found that to be the case, as shown by the following illustration of a working mother with three children -- two of whom required child care -- in Los Angeles:

The monthly earnings of an AFDC mother in Los Angeles working full-time at $2.50 an hour amounted to		$433
Less payroll deductions		-54
Leaving her net take-home pay of		$379
The statutory disregard is		-30
Less one-third of the remainder of her gross wages: 1/3 x ($433 - $30)		-134
Less work-related expenses, including		
Standard food and incidental allowance	$25	
Transportation, including car maintenance	80	
Child care for two children	107	-212
Her net pay for computation of supplemental benefits, after subtracting income disregards and work-related expenses, is		$3

California determined that, at the time of this example, a family of four had monthly "needs" of $285. The law entitled her to receive, in supplemental benefits, the difference between her level of need ($285) and her "net" pay ($3) up to a limit of $221 for a fmaily of four. Thus, although this mother was able to increase her monthly disposable income, after work expenses, by $167 through working full time, she was still entitled to virtually her full welfare benefit.[13]

This example demonstrates why it is difficult for AFDC recipients to work their way out of welfare as long as the wages received by public assistance recipients (after deductions for work connected expenses) do not exceed benefits. It also shows that calculating the benefits of working is no simple exercise. Moreover, there is evidence that many AFDC recipients do not know about these incentives or their possible effects on family income. A study of the administration of work incentives in Vermont concluded that there was considerable caseworker discretion in computing net welfare benefits.[14] This is hardly surprising in light of the complexity of the task. Hearings before the Joint Economic Committee led to the conclusion that welfare is an "administrative nightmare," in part because local "welfare agencies are supposed to follow directives which may fill a bookshelf 4 feet wide."[15]

Whether the 1967 incentives had the desired effect is subject to debate. Since then there has been a modest increase in AFDC mothers' work effort, as measured by the proportion at work. But it is also plausible that this increase reflects mainly the addition of more employable mothers to the AFDC rolls. Two researchers concluded that these incentives help the relatively few recipients who are closest to leaving welfare while doing nothing for the many who are mired deeply in poverty and who are not employable enough to avail themselves of the incentives.[16]

There is also the question of whether the incentives have served to attract low-wage heads of households earning less from work alone than what can be provided by the combination of work and welfare. However, it must be noted that federal regulations require that AFDC fathers be arbitrarily removed from the welfare rolls if they work 100 hours or more a month, regardless of earnings.

Efforts to study work incentives have also included interviews with welfare recipients and others connected with the program. Surveys conducted by Leonard Goodwin revealed that AFDC recipients have essentially the same attachment to the work ethic as members of families with regular workers.[17]

Social experimentation was widely hailed during the late 1960s and early 1970s as a basis for policy-making, and federal agencies initiated a series of such projects in the field of income maintenance. The designs called for exploring the impact of income maintenance upon welfare recipients and working poor, whites and blacks, female-headed families and male-headed families, in urban and rural settings, and under a variety of benefit levels, tax rates, and supportive services. HEW conducted a series of such experiments, but the most prominent was the graduated work incentive experiment, initiated by the now-defunct Office of Economic Opportunity. The so-called New Jersey Experiment focused between 1969 and 1972 on urban male-headed families.[18]

Although the final results were not as precise as the designers had hoped (because New Jersey expanded assistance to families headed by males and because other factors changed while the experiment was in progress) there seemed to be adequate support for the overall conclusion that the levels of assistance offered -- averaging about $100 a month -- caused no dramatic diminution of work effort. The male family heads generally reduced their labor supply very little -- less than 10 percent relative to the control group. And some of the reduction appeared to be due to longer periods of search between jobs, in hopes of finding better jobs and higher wages. The wives in some groups did reduce their labor supply by a substantial proportion, but these women had previously worked relatively little.

The experiment also investigated a number of social and psychological factors, but the cash assistance grants involved apparently had no systematic effects on recipients' health, self-esteem, marital stability or fertility rates.

Although these results seem to confirm the recipients' attachment to work, care must be taken in generalizing these findings to female-headed or rural families or to substantially higher benefit levels. Thus, while these results provide support to negative income tax advocates, they have limited applicability to formulation of national policy.

Demand: Labor Market Limitations

Expectations of the extent to which work can "solve" the welfare problem must be tempered by findings on the labor market's limitations in providing adequate incomes even for those who work diligently. Because separate unemployment, poverty and other measures may understate the actual degree of labor-market-related problems, social scientists have sought composite gauges of what is called subemployment or underemployment.

One such measure -- called the employment and earnings inadequacy index --

found that 10.5 percent of the labor force (slightly adjusted from the conventional definition) was subemployed or inadequately employed in March 1974.[19] The conventional unemployment rate for the same month was 5.3 percent.

Included in the subemployment index were:

--unemployed individuals as conventionally defined, less those between 16 and 21 whose major activity was school attendance and all those 65 years of age and over . . . . 2.5 million

--fully employed family heads and unrelated individuals whose previous year earnings were less than the poverty level . . . . 1.9 million

--partially employed family heads and unrelated individuals whose previous year earnings were less than the poverty level . . . . 3.5 million

--discouraged workers who wanted jobs but were not looking because they thought no work was available or for other reasons . . . . 0.4 million

--persons working part-time who wanted full-time jobs but could not find them and related reasons, not otherwise included . . . . 1.2 million

These statistics reflect the prevalence of low-wage jobs throughout the economy. More than one-fourth (or 16.6 million) of the 63 million wage and salary workers in May 1976 earned less than $3.00 an hour and almost one-tenth (or 5.9 million) were earning less than $2.25 an hour:

	Under $2.00	$2.00 to $2.24	$2.25 to $2.49	$2.50 to $2.99
Number (million)	2.8	3.1	3.9	6.8
Proportion	4.5%	4.9%	6.1%	10.8%

Switching from a bird's-eye view of inadequacy throughout the labor force to a focus on individual occupations, it is clear that AFDC recipients' usual occupations stand them in poor stead vis-à-vis the labor market because:

--these occupations are characterized by relatively low wages and high unemployment;

--the future growth prospects of these occupations, on a national basis, are not good; and

--many AFDC recipients live in areas whose economy may be declining.

Even if they were not constrained in their labor force activity by health, child care and other problems, AFDC recipients' earning ability would be limited. More than one-quarter of AFDC mothers have never worked. Those AFDC fathers and mothers who were employed were concentrated in the least attractive occupations, many of them in the low-skilled, poorly-paying, high-turnover secondary labor markets. Compared to workers in general, AFDC fathers and mothers are more likely to be service or farm workers and much less likely to be white-collar workers.

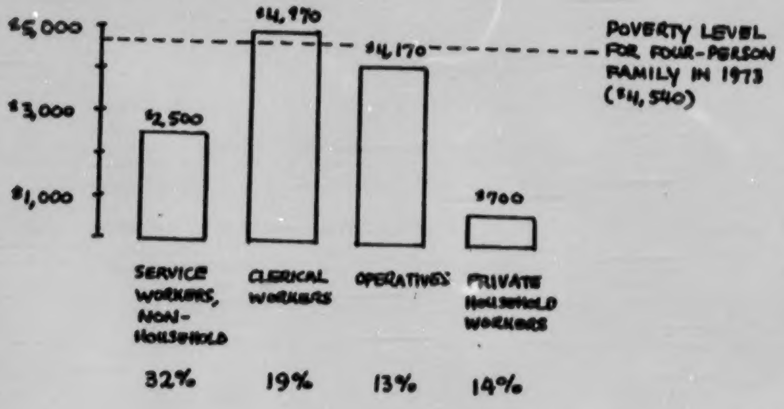
Both AFDC fathers and mothers are concentrated in occupations which rate relatively low in earnings, even for those who work consistently. More than half of

AFDC fathers' current or usual occupations could be expected to yield earnings below the poverty level.

	Percentage of AFDC fathers	Earnings of all men employed during 1973
Nonfarm laborers	36	$5,165
Farm workers	17	$2,953
Poverty level for family of five		$5,322

AFDC mothers face even bleaker prospects. Four occupational groupings accounted for three-fourths of AFDC mothers' current or usual occupations. Again, the earnings from these jobs were at or below the poverty level for families of four.

Many AFDC Mothers Have Skills That Can Bring Them Only To The Poverty threshold



Not only do the usual occupations of AFDC parents offer below-average opportunities, but the Bureau of Labor Statistics projects below-average growth prospects for many of these occupations. This is especially true for AFDC fathers. Over half of them are nonfarm laborers or farm workers; these occupations are expected to grow only 5 percent and shrink 48 percent, respectively, in contrast to an expected overall 24 percent increase in jobs by 1985. One mother in seven is a private household worker, an occupation expected to decline 27 percent.[20]

Compounding AFDC recipients' unfavorable occupational characteristics, both current and future, is an apparent geographic shift in economic momentum. The "sun belt" states of the South and Southeast are accounting for the major share of economic and population growth, while the Northeast and Northcentral states of the "gray belt" are making little economic progress.[21] Although the financial burdens imposed by AFDC rolls in the latter states may have contributed to their plight, the result is that AFDC recipients will face additional problems in finding jobs in these states, and especially in their central cities.

About four of every nine AFDC families in early 1976 lived in the Northeast and Northcentral states. Moreover, in these states many AFDC recipients lived in central cities with populations of 250,000 or more: 67 percent in Illinois, 39 percent in Michigan, 77 percent in New York, 59 percent in Ohio, and 50 percent in Pennsylvania.

The data do not paint a sanguine picture. Even if AFDC recipients can surmount the obstacles of health, child care, poor skills, limited education, race and other roadblocks in the way of supply, and even if they are provided adequate incentives to seek work, they still must clear the difficult demand hurdle. AFDC recipients face substantial problems in finding steady work at pay scales that take them above the poverty level. Worst of all, future trends could very well exacerbate these problems.

Turnover

Many workfare efforts are premised on the view that the public assistance population is a stagnant mass which can be chipped away, little by little, until its great bulk is reduced. Do recipients languish on AFDC rolls for long periods, even from generation to generation? Or do recipients use assistance as a temporary stop-gap to help them over difficult periods? If so, government programs may engender a lot of red-tape and paper-shuffling, but may contribute little to recipients' desire and ability to leave the rolls. Further, to the extent that there is turnover, what kinds of families are most likely to leave?

On the most general level, the AFDC population is not constant from year to year. There were 3.4 million families on the rolls in January 1975. During 1975, 1.7 million new cases were added and 1.5 million cases were closed, resulting in a net gain of 200,000. As of January 1976, there were 3.6 million AFDC families.

However, it should be noted that employment does not account for most families' leaving AFDC. Nationwide data for 1972 showed that about 600,000 cases were closed during the first half of the year. About one-fifth of case closings were due to the employment or increased earnings of a member of the AFDC family. A variety of other, non-employment related reasons accounted for the other four-fifths of the closings:

Employment or increased earnings of AFDC father, mother, or other person	21%
No longer eligible with respect to need, for reasons other than employment or increased earnings	19
No longer meets eligibility requirements other than need	24
Refused to comply with procedural requirements	7
Transferred to another public assistance program	3
Other	26

A number of detailed studies have become available in recent years to provide additional insights into case closings. A survey of these analyses concluded that turnover in the welfare population is high and that most families who join the welfare rolls leave within a few years.[22] The average spell on AFDC lasts about 2 years and is shorter for families headed by males. However, many families that leave AFDC later return, sometimes more than once. Thus, the long-term success in terms of families' leaving AFDC is much less than the short-term success. These measures of success, however, should be broadened to examine changes in welfare payments over time. Because partial dependence on welfare is preferable to total dependence, reductions in payments should certainly be counted as partial success.

One investigation of AFDC turnover found, not surprisingly, that those with good labor market chances were more likely to leave welfare, and less likely to return. This group included proportionately more whites than blacks. Another study found that the AFDC mother's age, education, and number of children were also important.

All of these labor market related variables should be expected. An additional finding is that the longer a family stays on AFDC, the lower its chances of leaving: a family with one child, headed by a white mother under 26 who has been on welfare for less than a year, has about one chance in three of leaving AFDC during the next year. If the same type of family has been on welfare for more than 2 years, its chance of leaving during the next year falls to one in eleven.[23]

Yet, as noted, labor market factors account for a minority of case closings. Program structure and administration seem crucial, including the level of assistance, the acceptance rate of new applications, and the stringency in enforcing income documentation. Such administrative procedures can considerably affect reported openings and closings. The combination of these variables has decisive impacts upon the turnover of welfare rolls.

Current Approaches

That public policy has been impatient and dissatisfied with workfare programs for welfare recipients is clearly demonstrated by the frequent shifts in approach, each failure more frustrating than the last.

What has evolved from this attempt to control welfare through workfare is a highly diffused effort. The Work Incentive (WIN) effort initiated in 1967 remains the largest single program (see appendix A). To complement WIN, tax credits have been legislated to induce private employers to hire welfare recipients. Independent of WIN, however, are four major lines of attack:

1. Integrating WIN services with other manpower programs.

2. Work requirements, implemented by states, to force welfare recipients to look for and take jobs under penalty of losing their welfare benefits.

3. "Working-off" relief, to force recipients to "earn" their grants by providing services but allowing them no additional compensation.

4. Work support, with federal funding, to provide jobs for welfare recipients.

Tax Credits

In an effort to stimulate the private sector to provide more jobs for WIN recipients, Congress provided -- in the Revenue Act of 1971 -- a tax credit for employers who hire WIN recipients. This provision is analogous to the investment tax credit which has been used intermittently to stimulate overall economic activity.

The credit equals 20 percent of the gross wages paid to a WIN employee during a tax year. An employer may claim no more than $25,000 plus one-half of additional wages for any tax year. The employer must be certified to receive the credit and must hire persons placed through WIN. To use the credit, the employer must retain the WIN employee for at least 12 of the first 24 months, unless the WIN employee is fired for good cause or laid-off due to a shortage of demand. However, if the employee is terminated for reasons deemed to be within the employer's control, the credit may be recaptured.

The Tax Reduction Act of 1975 extended a credit to employers hiring any AFDC recipient, for a trial period of 15 months. This credit is similar to the 1971 provision, except that to qualify for tax credit the AFDC recipient must have received benefits continuously for 90 days regardless of WIN enrollment, and must be hired for only 30 consecutive days on a substantially full-time basis, rather than 12 months. There are no recapture provisions.

Despite its theoretical appeal, the tax credit -- whether for WIN enrollees or AFDC recipients -- has achieved little and has been beset by a number of difficult problems, according to a recent evaluation.[24]

The WIN tax credit was not widely used during its first five years. The program peaked in 1974 when employers claimed tax credit for about 40,000 WIN employees. By fiscal 1976, the number declined to about 25,000. The program accounted for a maximum of one of every six participants placed in jobs. Apparently in response to the recent recession, use has since dropped to less than one WIN in eight.

Moreover, the evaluators found that the tax credit usually was not an important hiring incentive. Only one of nine employers interviewed for the study said that the tax credit was a significant incentive. Based on these data, analysts estimated that only about 2 percent of all WIN job placements between fiscal years 1973 and 1976 could be attributed to the tax credit. However, it was found that the credit was used more where it was aggressively pushed by local WIN staff, and was of more importance to manufacturing employers.

The Labor Department sponsored study identified a number of problems working against the credit's widespread use:

-- Employers were interested primarily in finding qualified employees and the credit did not compensate for what employers perceived to be additional costs of hiring poorly-qualified persons;

-- there was a lack of knowledge about the credit's availability, but half of the surveyed employers who did not use the credit were nonetheless aware of it; and

-- in large corporations the record of foremen and supervisors could be adversely affected by hiring poorly-qualified persons but they did not stand to benefit from corporate tax savings.

Although the welfare tax credit has not been in effect long enough to give a final evaluation, the prognosis is not good. It suffers from the liabilities of the WIN credit, and in fact its early rate of usage was far below that for the WIN credit. The evaluators concluded that the tax credits are unlikely ever to make a significant impact upon welfare rolls.

Integrating WIN with Other Programs

During the formative years of manpower policy, each newly recognized labor market problem was attacked by a separate program. The WIN program and its antecedents were clearly part of that pattern. More recently there has been a reaction against this piecemeal approach. Attention has been directed to decategorizing and decentralizing programs -- allowing state and local authorities to designate target groups and develop programs with less guidance from Washington. Passage of the 1973 Comprehensive Employment and Training Act (CETA) was a significant step in this direction, but because of congressional committee jurisdictional jealousies, WIN and the employment service were left out of the 1973 legislation.

At the same time, the administration indicated a growing disenchantment with expensive efforts to train or retrain welfare recipients. One effect was the steady retreat from early promises that WIN would be an "all-out effort to direct manpower and social welfare services to a common goal."[25] Instead of offering a rich diet of services for the few, WIN has moved increasingly to provide a meager diet for the many.

These currents coalesced in the 1976 announcement that WIN would become exclusively a job-placement effort and any necessary training would be provided by local CETA sponsors. This climaxed the shift in WIN's emphasis and coincided with the philosophy of decategorization. At the same time, it represented a retreat from WIN's original promise and held out little hope for equivalent services under CETA. The major training effort (Title I) was woefully inadequate to serve even non-welfare clients. Nor was there a compensating increase in Title I's budget; the increase in the proposed fiscal year 1977 budget (to $1.9 billion) was barely enough to keep up with the rate of inflation.

Even before a formal decision was made to have welfare recipients compete with non-welfare unemployed, underemployed and disadvantaged persons, welfare recipients had been heavily represented in many employment and training programs. For example, public assitance recipients were a significant proportion of all persons enrolled in programs under the Manpower Development and Training Act between fiscal years 1963 and 1971: 8 percent in 1963; 12 percent in 1967; and 16 percent in 1971. Public assistance recipients accounted for one of every four CETA Title I enrollees in fiscal 1975 and about one in seven participants in public service employment.

CETA administrators recognized early the importance of coordination with

WIN, and issued a guide on this subject to state and local sponsors. Later on, however, the National Commission for Manpower Policy claimed that -- despite differences in the programs' philosophies and structures -- there were still significant opportunities for increased coordination between CETA and WIN. These included using CETA money to supplement training funds under WIN.[26]

"Working Off" Relief

Impatient with WIN's slow progress, states have tried two additional, coercive methods: making welfare recipients "work off" their assistance, and requiring AFDC recipients to search for jobs; the latter similar to the work requirement for food stamp and unemployment insurance recipients.

It is no accident that California and New York have been in the forefront of such state efforts. Together they account for about one-fifth of the nation's AFDC rolls and three-eighths of AFDC costs. In addition, New York's general assistance program for those not covered by federal programs, "Home Relief," served about 250,000 persons in early 1976 at an annual cost of over $350 million.

These two states reincarnated the "working off" relief approach of the Community Work and Training program of the early 1960's. The idea was to put some welfare recipients to work and to provide public services in exchange for their welfare grants. However, similar to the CWT program the new schemes have been plagued with problems.

California Community Work Experience Program. The State of California mandated, and HEW granted an experimental waiver for, a three-year demonstration project in which employable AFDC recipients were selected and referred to nonpaying work assignments. Under this Community Work Experience Program (CWEP), assignments were to take up no more than 80 hours a month, leaving time for recipients to seek regular employment. Recipients received no wages, although county welfare departments and employing agencies had to pay work-related expenses. Continued eligibility for aid was conditioned on accepting CWEP assignments.

The program operated between fiscal years 1973 and 1975 in 35 counties. Some 9,600 assignments were made over the three-year period, with a peak of 4,600 in the final year. Total costs were $570,000, a fourth of which was spent to evaluate the program.

According to the evaluation by the state Economic Development Department,[27] the program fell short of achieving its goals of (1) reducing the number of applications for aid, (2) reducing the total of grants paid, and (3) increasing the number of recipients leaving the welfare rolls because of employment. (The report cautions that these findings are tentative because of the program's limited scope.)

This limited impact was due to an extraordinary series of operational problems, including:

-- Relatively few individuals were assigned to CWEP. Even in the year of greatest implementation, there were only 2.5 assignments for each 1,000 AFDC cases.

-- Many counties did not participate willingly. Some counties refused to provide work-related expenses for participants. In one county the board of supervisors passed a resolution condemning CWEP and essentially prohibiting county participation. In another county, community groups aroused such strong opposition that public agencies accepted few CWEP assignments. It is noteworthy that the program was substantially more successful in counties which participated willingly. Also, the state legislature voted to abolish the program in 1974, but the Governor vetoed the bill. Upon the Governor's leaving office in early 1975, the program sputtered to a halt.

Aside from the usual objection to "working off" relief, a number of factors may have hampered the projects' success: First, the program began under the cloud of a possible court injunction to stop CWEP, and other possible legal problems slowed counties' acceptance of the program. Second, CWEP bumped against other work and training tests (including WIN, the employables program and the Emergency Employment Act's public employment program) in competing for staff, enrollees and job slots. Finally, CWEP encountered operational problems. Project administrators, in some cases, were opposed to CWEP and failed to enforce the provisions. Staff were reluctant to pressure welfare recipients to participate and did not want to risk offending public or private user agencies by sending them unwilling or unqualified applicants.

New York Work Relief Employment Program. In July 1971, New York State established a public works program that required welfare recipients who could not find private-sector jobs to "work off" their assistance at prevailing wages. Two years later, New York City converted it to a work relief employment program. The jobs were the same, but instead of receiving public assistance payments, participants who worked at least half time received a paycheck and other benefits, and paid taxes like regular employees. The rhetoric used to justify the program was strikingly similar to that used in connection with CWT more than a decade earlier.

Program participants were drawn largely from the Home Relief, rather than AFDC rolls. More than seven in ten were living alone and had not completed high school, two-thirds were men and over half were black. Enrollment peaked at 12,000 in late 1972.

Participants filled a wide variety of jobs, including child-care aides, janitors, couriers, security guards, automotive mechanics and typists. One widely-publicized project was to clean up the Staten Island ferries.

A series of interviews found that program administrators considered enrollees well skilled and were pleased to have them, but that formal training was not provided and virtually no participants had moved into full-time regular jobs. Supervisors said that most enrollees were willing to work but they complained that their own supervisory load had increased. Regular workers opposed the program, as might be expected, because enrollees often received lower wages and also filled jobs that might otherwise have been available to other regular workers. Enrollees generally wanted to work and enjoyed working, but wanted more training opportunities. Instead of "working off" their relief payment, they would have preferred "real" jobs and economic independence.[28] The program was apparently not very successful in moving people off the welfare rolls. Moreover, participants' pre- and post-program earnings were essentially the same.[29]

The city began phasing down the program in early 1975, and in mid-1975 laid off several thousand participants who had been in the program for at least 18 months because they had presumably gained whatever work experience they could. (Those laid off were reportedly eligible for unemployment compensation under emergency federal legislation covering local government workers.)

The city program was ended in April 1976, the victim primarily of budget stringency. Even though home relief funds were used to pay for a large portion of wages and benefits, costs were about a sixth higher under the work relief program than under Home Relief, and New York's financial straits apparently could not withstand even that modest increase in costs.

Job Search

California and New York also tried to spur welfare recipients to look more actively for private sector jobs. These efforts are similar to the federally-mandated job search requirements for persons receiving food stamps or unemployment compensations -- both of which have had only limited success.

California Employables Program. Even before the 1971 Talmadge amendments, California had developed and begun to implement a state program, called the Employables Program, designed to place welfare recipients in jobs. Many WIN enrollees who were classified as "job ready" were required to begin searching for a job on their own.

Registrants were expected to contact five to ten prospective employers every two weeks and to report to the local manpower office to have their efforts evaluated. Failing to search for a job could result in losing welfare benefits. A General Accounting Office review of this program during fiscal year 1973 in San Diego County found that registrants had received few manpower services.[30] Fifty registrants were studied in depth, and the following problems were found:

-- 22 of 50 were incorrectly categorized as "job ready";

-- 28 of 50 received no job referrals;

-- 40 of 50 had no job search plan prepared by program administrators.

Based on its findings, the GAO concluded that the program had little success. The 50 registrants had collectively contacted 782 employers, an average of almost 16 each, but only three had found jobs after an average of one and a half months. GAO said that many registrants were probably not capable of making an effective job search on their own and could be helped by more job-referral and supportive services. Claiming greater success than the GAO report indicated, the State of California stated that in the three months subsequent to the study another six persons in the sample had found employment as a result of their job searches.

A later evaluation [31] compared the Employables Program in San Diego with other work tests. The evaluators found that enforcement in San Diego was relatively stringent: 40 percent of the registrants sampled were questioned about their job-search activities, and 75 percent of this group had to provide evidence to support their statements. Perhaps because of this stringency, registrants in San Diego sought job information from more sources than did registrants in other cities. For example, five of every six used two or more sources.

Moreover, San Diego registrants were also more likely to visit employers frequently (five of every six visited two or more weekly). However, echoing GAO's finding, this study found that registrants received few services: only one of every five males and one of every six females were referred to jobs; two-fifths of males and three-tenths of females were shown job lists; few of either sex received other services. Despite more stringent administration, and perhaps in part because of few services, the work test had somewhat more effect among males in San Diego than in the other cities, but even there the evidence was weak; the work test was not effective in any city for females.

New York Job Referral Program. A 1971 amendment to a New York State law required that employable welfare recipients -- both AFDC and New York Home Relief -- pick up their bi-weekly assistance checks at a local employment service office. The objective of this program was to bring employable recipients into contact with the job market and, it was hoped, to get them back to work and off the welfare rolls.

Shortly after the program began, it was announced that large numbers of recipients were failing to pick up their checks as required. Welfare critics saw this as proof that the requirement had flushed out many fraudulent recipients. However, a closer investigation initiated by the federal Departments of HEW and Labor concluded that much of the non-reporting was due to administrative errors and improper screening of recipients. Twenty-eight percent of the cases studied were initially reported as failing to comply, but when extenuating circumstances were considered only 10 percent were penalized for failing to comply without good cause.[32]

To judge the effectiveness of the job search requirement, a RAND study tracked a large number of welfare recipients reporting to the employment service during fiscal

1972. The investigators found that only about one quarter were placed in jobs or training; another fifth were referred to jobs but not placed; and the remainder — more than half -- recieved neither referrals nor placements. Although relatively few recipients received tangible benefits, the proportion of persons claiming to be unemployable dropped sharply -- from 50 percent in July 1971 to 13 percent in June 1972.

The researchers found that the median hourly wage of $2.24, or $340 a month for full-time work, was less than the welfare allowance for persons in households of three or more. Considering payroll deductions and the possibility that not all jobs were full-time, they concluded that the average wage earners in the sample studied qualified for welfare supplements even if they worked full time.[33]

Another study, which did not consider the program's costs, concluded that the work requirement did result in greater economic independence for a segment of the welfare population. It also found that the availability of on-the-job training was the single most important variable in determining how long welfare recipients and others stayed at the jobs.[34]

Criticism of the New York referral program centered on its coerciveness and limited returns. A task force appointed by the governor concluded in March 1975 that procedural errors were rampant, the effort consumed a great deal of staff time and, most significantly, few persons got jobs who would not otherwise have found them. The task force recommended that the program be terminated or at least suspended until improved economic conditions would reduce widespread job deficits.

Food Stamp Recipients. Benefits under the food stamp program are paid "in kind" -- rather than in cash -- as eligible persons and families may exchange money they would normally spend on food for coupons whose value is greater than the amount paid. Benefit levels decrease as recipients' incomes increase. What started out as a pilot program in a few counties in the early 1960s became the "welfare explosion" of the early 1970s. By fiscal 1976 the program had expanded to benefit 19 million recipients -- nearly one American in eleven -- at an annual cost of $5.6 million.

Reacting to this "food stampede," Congress amended the Food Stamp Act in 1971 to establish a work requirement. As a condition of eligibility, all able-bodied food stamp applicants are required to register for work and accept suitable employment. (Persons receiving both AFDC and food stamps register for WIN.) The Departments of Labor and HEW and their affiliated state employment service and welfare agencies administer these requirements at an estimated annual cost of $28 million.

An evaluation by the Labor Department in the summer of 1974 found that the food stamp work registration and service delivery system was operating under great stress, and results were far below potential because of:

-- split responsibilities between welfare and public employment service agencies;

-- limited program monitoring by major administering agencies;

-- relatively uncontrolled registration of food stamp recipients; and

-- excessive paperwork related to registering and processing recipients.

In terms of demographic characteristics, food stamp recipients were not substantially different from typical employment service clients, but they were perceived by employment service staff as harder to serve from the standpoint of individual motivation. Nonetheless, food stamp recipients were placed in jobs similar -- in wages and expected duration -- to those of other employment service applicants.[35]

An evaluation of the effects of the food stamp work requirements, funded by Labor, was designed to determine whether existing work tests affected the timing and quality of jobs found. Three cities were chosen for review because they had similar labor market conditions but were believed to enforce the work test rules differently.

The evaluators found that there did indeed appear to be enforcement differences among cities, and that men were pressured more than women in every city. Local employment service offices were evidently more adept at applying pressure than at providing concrete services. It was found that the public employment service did not greatly assist job-search efforts, and made job referrals at rates somewhat below those for other employment service applicants. Aside from job referrals, registrants were offered little in the way of manpower services except the opportunity to review job listings. In light of these limited services, it should not be surprising that there was little evidence -- even in the city with the toughest enforcement -- that the food stamp work test has much of an effect on work behavior.[36]

Unemployment Insurance Recipients. Unemployment insurance benefits are available to previously-employed persons through a state-administered program. Benefits depend primarily on recipients' prior earnings and duration of work. To qualify for benefits, the claimant must be available for and actively seeking suitable work. The requirement is generally administered very loosely by the state employment service.

A recent General Accounting Office review of the effectiveness of the U.I. work test found several obstacles to the effective implementation of the law.[37] Some of the difficulties were administrative in nature, but conditions beyond the control of the employment service were more crucial.

Many jobs listed with the public employment service are low-paying. Of all placements during fiscal year 1975, 55 percent were in jobs paying less than $2.50 an hour, and about one-third were in jobs paying $2.00 an hour or less and presumably not subject to federal minimum wage laws. Half of these menial jobs were expected to last less than five months. Under the circumstances it was difficult to penalize claimants who were apparently not trying to find work. In fiscal 1975, the public employment offices identified about 206,000 such claimants, but only 60,000 lost benefits. This amounted to only 1 percent of the 6.5 million claimants registered. Few disqualifications result because of difficulties in obtaining sufficient evidence that a claimant did not appear for a scheduled job interview and in deciding what constitutes availability for work.

Because of these problems, the work test appears to generate paperwork but adds little in terms of real controls or benefits. GAO reported that, during the first six months after New Jersey ended mandatory registration for claimants, the number of registrants dropped 50 percent compared to the year before, but that almost as many persons were placed, even though there were fewer job listings. In fiscal 1975 unemployment insurance claimants were less than half as likely as non-claimants to be placed through the public employment offices nationwide.

Two efforts to provide intensified services to unemployment insurance recipients had limited success. A project operated in Buffalo, New York during 1970 focused on persons who had received benefits for between 13 and 26 weeks; it was designed to offer intensive employment services -- including training, guidance, relocation aid, and medical services -- to reduce the number of recipients who exhausted their benefits and to increase the number remaining in the labor force.

Several problems were encountered, but most of these appeared to be in the program design and implementation, not in the beneficiaries. Perhaps because of these administrative difficulties, the results were mixed. There were twice as many job placements in the test group as in a matched control group, and training and vocational rehabilitation services were given six times as often. But the number exhausting their unemployment benefits was not significantly lower. Nonetheless, project enrollees were somewhat more likely to return to work after exhausting their benefits. The final report did not estimate the cost per additional placement.[38]

Job Creation

While the federal government's job creation programs have generally concentrated on the needs of the victims of recession, some efforts have focused on welfare recipients. An assessment of three of these efforts offers grounds for guarded optimism.

Emergency Employment Act Welfare Demonstration. In response to high unemployment in the wake of the 1969-70 recession, Congress appropriated under the Emergency Employment Act of 1971 (EEA) a total of $2.5 billion to fund public service employment jobs. Thirty-five million dollars were allocated to an experimental public employment program for welfare recipients in four states between 1972 and 1974. The project created 5,300 jobs in some 400 public agencies and altogether about 7,250 persons participated.[39]

Four of every five persons participating in the program were women, although at every site some women could not participate because child care was inadequate or not available. Blacks comprised 85 percent of the total, and another 5 percent were Spanish-speaking. About five-ninths were under 30 years of age, and about four-ninths were at least high school graduates.

The program was fairly successful in meeting its major objectives. After some false starts, jobs were created which were congruent with eligible welfare participants' characteristics and there was little problem in filling these slots. About two persons were referred for each one hired. According to both participants and their supervisors, the work was useful and participants generally performed as well as regular workers.

Jobs under the project were intended to be temporary, or "transitional," leading to regular, unsubsidized jobs. After the program had been operating for about two years, only about one-fifth of a sample of early participants were still in the program; about two-fifth had found other public or private-sector jobs; one-fifth were looking for work and one-fifth were not seeking jobs. Civil Service regulations proved to be less of a barrier to permanent employment than did the shortage of public jobs. Success in obtaining unsubsidized jobs was generally associated with expected demographic characteristics: whites did better than blacks, men did slightly better than women, persons with a high school education -- as well as those with eight or fewer years -- did better than those with nine to 11 years.

Participation in the project appeared to increase earnings from an hourly average of $2.24 before the program to $2.94 in the program. Also, in relation to a control group, participants had better employment experience after leaving the program as their motivation to seek work appeared to increase. The program improved and broadened the delivery of public services by relieving overloads on regular staff, extending the scope of existing services, and beginning new services.

Appropriations under the Emergency Employment Act accounted for part of the outlays. Of about $35 million spent during the first program year:

-- $20 million of Labor, HEW, and state funds were spent on participant wages and fringe benefits;

-- $8 million was spent by state and local employing agencies for the extra costs incurred by program participation;

-- $ 2 million was spent by administering and employing agencies to meet required matching of federal funds; and

-- $ .6 million was spent by Labor as a special administrative subsidy.

This $35 million expenditure exceeds the estimated $10 million in welfare the participants would otherwise have collected during the first year of the project. However, the project's net cost is reduced to $15 million if deductions are made for (1) the public benefits provided, evaluated at the actual cost of project salaries, and (2) income and other taxes paid. This is 50 percent greater than the cost of welfare. Beyond the first year, the project's startup costs presumably would be somewhat lower, and the project's relative cost would accordingly decrease.

Vermont Special Work Project. While welfare reform was being hotly debated in 1970, the Labor Department funded an experimental and demonstration project in Vermont to test the feasibility of proposed "special work projects." The project, which operated from July 1970 through October 1973, was designed to put unemployed persons to work in public and private nonprofit agencies, with the hope that they would develop job skills that would lead to unsubsidized employment.[40]

Special work slots were designed to offer work experience rather than skill training, with the purpose of (1) upgrading enrollees to the point they could benefit from skill training or find a job, or (2) providing temporary subsidized jobs for persons who could not find work. In general the slots were to last no more than six months, and were to pay no less than the minimum wage.

The project's target population comprised the economically disadvantaged who were among the unemployed or working poor and whose families were poor. Although it was expected that many enrollees would be members of "hard core, low-income, multi-problem" families, the enrollees were not uniformly disadvantaged.

About three-fifths of the 652 enrollees were women (about two-thirds of whom were household heads), while virtually all of the males were household heads. A majority of the families had no more than two children. More than two-fifths of the men and three-fifths of the women had at least completed high school. Approximately three-fifths of all enrollees were between 25 and 44 years of age. Although virtually all enrollees were unemployed or out of the labor force at the time they entered the program, men had greater previous success in the labor market. Nearly two-thirds of the men, but only 15 percent of the women, had ever earned $1.50 an hour or more. Furthermore, about six in ten men and seven in ten women were receiving cash or in-kind welfare when they enrolled. In terms of duration on welfare, men averaged eight months, while women averaged almost two years.

The project's operators believed that it generally met its goal of helping clients -- through the experience of working for wages -- to develop habits and skills which would reinforce their desire to work. Follow-up records showed that:

-- 52 percent of all enrollees completed the project and were placed in permanent, full-time jobs;

-- 14 percent completed the project but were not placed in permanent jobs;

-- 15 percent left the project because of illness, relocation, or other "good" causes; and

-- 20 percent left the project "without good cause."

Furthermore, of those who completed the project and were placed, over three-fourths were still working six months later. However, of those who left early, only about one-fifth were working six months after leaving the project. Another indication of success was reduced welfare dependency. Average cash payments for those who completed and were placed declined from $132 a month before entry to $44 after job placement.

Thus, it appears that those who completed their assignments and were placed immediately did well in retaining their jobs and reducing their reliance on welfare. This group represented about half of all who entered the program. However, almost as many persons did not progress as hoped, and their program benefits were markedly less.

Two-year follow-up data showed that the overall proportion who were still employed decreased over time, and the decline was about equal for women and men. However, the decline for completers was, to some extent, counterbalanced by an increase in employment among dropouts. Among the completers, roughly 81 percent were employed after one month, 75 percent after nine months, and 70 percent after 24 months. However, among dropouts the proportion employed rose from 10 percent after one month to 41 percent after nine months, and then declined to 38 percent after 24 months.

Those who continued to work earned substantially higher wages after placement than while in the project. In contrast to an average wage of $2.19 an hour in subsidized jobs, the average wage after nine months was $2.47. In addition, welfare dependency decreased over time. Nearly three-fifths of enrollees were receiving cash benefits when they entered the program, but the proportion dropped to less than two-fifths after nine months. The decline was greater for women than for men.

In interpreting these results, caution is needed. Over time, the more employable presumably continued to work while the less employable became unemployed or stopped looking for work. This would explain increasing wages over time. Women's families were smaller, so it was easier for them to earn their way off welfare.

Supported Work. Work and training programs have generally focused on the most employable recipients. However, 15 "supported work" projects initiated since 1974 have concentrated on assistance to the least employable -- individuals with recognized work impediments: female welfare family heads, ex-offenders, ex-addicts and unemployed out-of-school youth. Because the participants' work histories prevent them from finding and keeping regular jobs, supported work offers a controlled, low-stress work environment for persons who are not ready to enter the competitive labor market. These projects have attracted widespread support. The federal Departments of Commerce, Justice, HEW, HUD and Labor and the Ford Foundation have provided financial support. The pilot projects are designed to provide information about the role of supported work as part of a comprehensive strategy for dealing with persons dependent on public assistance and to examine the economic and social implications of expanding such programs throughout the nation.

Enrollees work at a wide variety of jobs. In Oakland, for example, tasks include maintaining lawns, rehabilitating and painting houses, and operating a gas station. Service to the community is one of the goals stressed to enrollees, in addition to development of their own employability.

Through June 1976, some 2,400 persons had participated in supported work projects, about half of whom were still enrolled. Of the 1,150 who had left, one in four had graduated into regular jobs. The others had dropped out for a variety of reasons, including continued alcohol or drug abuse (about half) and personal problems or dissatisfaction (about one-fifth). Interviews with some of the dropouts revealed that wages were too low for some to support their families, while others objected to working so hard and earning so little. Since the enrollees were, by definition, "hard-core," high dropout rates are not surprising. Notable, however, were the 300 participants from AFDC rolls, whose dropout rate was appreciably lower than that for other groups, though relatively fewer AFDC recipients transferred to competitive jobs.

In recognition of the severe adjustment problems faced by many enrollees, projects are allowed to set aside up to one-fourth of paid work time for supportive services. Although some sites shun such activities, others use this time to provide basic education, typing, blueprint reading and driver education.

Wage rates, which vary between $2.50 and $3.50 an hour, are intended to be high enough to make working worthwhile yet low enough to allow the projects to compete for contracts from public and private groups. They are also designed to provide enrollees an incentive to find better-paying permanent jobs.

It is still too early to reach a conclusive verdict about supported work. But, according to the Manpower Development Research Corporation, which operates the program, several years' results of a New York City forerunner and the early returns from the current projects are grounds for guarded optimism.

The limited experience with supported work buttresses the view that most people on relief would rather work. The concept is not that government can force people to work, but rather than recipients will work if the right mechanisms can be fashioned.

According to the first annual report of the corporation operating this program:

> "The evaluation of the program, designed to measure results such as long-term earnings, reduction of social deviance and reduction of transfer payment costs, will not yield its findings for several years. Nevertheless, there is evidence that the initial in-program experience has been positive.
>
> "After a year and a half, an extremely difficult population had been successfully recruited and placed in supported work jobs. Of the first 3000 participants, over 75% were under 30, over 55% were receiving some form of transfer payments at the time of their enrollment, almost 20% had never worked before and of those who had, the average length of time worked in the six months prior to enrollment was about eight weeks. Over 60% had not completed high school. Youth had spent an average of over nine months in penal institutions and ex-offenders and ex-addicts, each averaging four adult convictions, had spent about 3.5 years behind bars.
>
> "Yet, their average length of stay in the program is over seven months, and during that time their attendance rate was over 75%. Of those who have left, over 20% were fired for inadequate performance; but almost 15% have already been transitioned into regular jobs even though the limits for staying in the program, 15 to 18 months, had been reached by only a very few."[41]

The Impact of Welfare Reform

AFDC's imperfections -- especially its failure to cover most poor male-headed families and its often inadequate benefit levels -- have long been recognized. But not until the late 1960s was there serious consideration of welfare reform.

In August 1969 the Nixon administration proposed a Family Assistance Plan (FAP) which remained under active consideration by Congress for the next few years. The plan would have expanded welfare rolls and costs because it proposed minimum, nationally-uniform benefits that were higher than AFDC levels in several states, and it extended benefits to families headed by an able-bodied male, as long as family income was below a predetermined level.

The National Planning Association estimated that the number of welfare families would have increased from 1.5 million in 1968 under AFDC to 3.1 million in 1975 even under the modest income assistance plan proposed by President Nixon. These families would have included some 2.9 million employable or potentially employable beneficiaries. However, because many would already have been working or have had pre-school children, only 1.5 million would have registered (one-fifth voluntarily) with public employment service under the work requirement for all adults under 65 who were not incapacitated, ill or needed to care for their children.

These 1.5 million additional registrants, it was estimated, would have accounted for only about one-tenth of the public employment service's 1975 workload. But because of their relative disadvantages, the beneficiaries of FAP would have required a disporportionately large share of total counseling, testing, training and other services.[42] (Indeed, the original FAP proposals included over $200 million for training and upgrading 225,000 persons, and another nearly $400 million to provide day care for 450,000 children).

Congress rejected the Family Assistance Plan, and favored instead the expansion of other assistance. It vastly expanded the food stamp program to serve the "working poor" -- most of whom are not served by AFDC. If Congress were to revive an assistance plan along the lines proposed by President Nixon, there would probably be few beneficiaries of a new welfare reform program who were not already receiving AFDC or food stamps, both of which are already subject to work requirements. This conforms to one wag's conclusions that if food stamps were colored green and called money they would constitute welfare reform.

Looking Ahead

As the nation enters its third century, we continue to fulfill the Biblical prophecy that "the poor shall never cease out of the land": not so much a pessimistic forecast as a recognition that each society defines and deals with poverty in its own terms.

Some basic conclusions to guide future policy emerge from the preceding evaluation of recent efforts to replace welfare with work and training programs.

1. Despite the multiple problems faced by AFDC recipients, they are not a distinctive homogeneous population. There is considerable turnover within the welfare population, and recipients are no less committed to the work ethic than the rest of society.

2. Carrots are preferable to sticks in bringing about change. Limited employability brought most AFDC recipients on to the public dole in the first place and strict work requirements have only limited effect, especially when many other persons are unemployed. On the other hand, job creation, skill training and real work incentives offer substantive help to recipients.

3. Real improvements will be costly. Job creation, skill training and child care are expensive as well as effective. Providing such services to a significant proportion of AFDC recipients will require a substantial commitment of resources. More limited are proposals to use public assistance funds to create jobs for welfare recipients. Simple arithmetic shows that additional funds will be needed to provide decent jobs (at

$7,000 or so a year, plus perhaps another $1,000 for child care and other expenses) for persons currently receiving welfare (at $3,500 or so a year). Such jobs must provide enough after-tax earnings to increase recipients' spendable income -- not just allow them to "work off" their relief checks -- but there would be no shortage of willing takers for good jobs. Although higher outlays are required, there is considerable appeal in getting a year's worth of public service in return for $8,000 in wages instead of getting nothing in return for $3,500 in welfare.

4. Goals for public policy should be realistic. Because of high costs, it is not likely that society will commit billions upon billions of dollars for job creation and other programs. Accordingly, there is no escaping the conclusion that many AFDC recipients' earnings will do no more than supplement their welfare checks.

5. Stronger local ties between WIN, local employment service offices and CETA sponsors could produce more efficient administration and operations. Going a step further, consolidating job search efforts under AFDC, food stamps and unemployment compensation would also improve administrative efficiency.

This analysis also points out what has been the major failing in workfare programs since the 1960s. Unless we avoid this basic error, the rush of new plans being proposed and implemented will only compound the futility already experienced. Given the current wage structure and the availability of transfer payments, the number of people on welfare who can achieve total independence through employment is quite low. Proposals to replace welfare with work may make appealing campaign slogans, but such unrealistic expectations can end only in futility.

A realistic program would view workfare as complementing welfare -- not either work or welfare! Such a program would realize that in the foreseeable future millions of Americans will be among the working poor -- even if they can find and keep a steady job. For these people the work alternative will not magically pull them up over the poverty threshold.

Samuel Johnson enunciated the criterion that "A decent provision for the poor is the true test of civilization." To meet Johnson's test, public policy must recognize that for millions of needy Americans work and welfare go together.

Footnotes

1. Detailed analysis of the growth of AFDC is included in Sar A. Levitan, Martin Rein, and David Marwick, *Work and Welfare Go Together* (Baltimore: Johns Hopkins University Press, 1976 printing), chapter 1; and Irene Lurie, "Legislative, Administrative, and Judicial Changes in the AFDC Program, 1967-71," in U.S. Congress, Joint Economic Committee, *Issues in Welfare Administration: Intergovernmental Relationships*, Studies in Public Welfare, Paper No. 5 (Part 2) (Washington: Government Printing Office, 1973).

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3. Comptroller General of the United States, *Social Services: Do They Help Welfare Recipients Achieve Self-Support Or Reduced Dependency?* (Washington: General Accounting Office, June 27, 1973), B-164031(3).

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6. U.S. Department of Health, Education and Welfare, Public Health Service, *Ten-State Nutrition Survey in the United States, 1968-1970* (Washington: Government Printing Office, April 1971).

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8. Perry Levinson, "How Employable Are AFDC Women?" *Welfare in Review*, July-August 1970, pp. 15-16.

9. Herbert Parnes *et al.*, *Dual Careers: A Longitudinal Study of Labor Market Experience of Women*, Vol. I, U.S. Department of Labor, Manpower Research Monograph, No. 21, 1970, pp. 121-127.

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16. Winifred Bell and Dennis M. Bushe, Neglecting the Many, Helping the Few: The Impact of the 1967 AFDC Work Incentives (New York: New York University School of Social Work, 1975).

17. Leonard Goodwin, Do the Poor Want to Work: Studies in the Work Orientation of the Poor and the Non-Poor (Washington: Brookings Institution, 1972).

18. U.S. Department of Health, Education and Welfare, Summary Report: New Jersey Graduated Work Incentive Experiment, mimeo, 1973.

19. Sar A. Levitan and Robert Taggart, Employment and Earnings Inadequacy: A New Social Indicator (Baltimore: Johns Hopkins University Press, 1974, chapter 2; and Conference Board Record, November 1976.

20. Neal H. Rosenthal, "The United States Economy in 1985: Projected Changes in Occupations, Monthly Labor Review, December 1973.

21. "The Second War Between the States," Business Week, May 17, 1976, pp. 92-111.

22. Barry L. Friedman and Leonard J. Hausman, Work and Welfare Patterns in Low Income Families (Waltham, Mass.: Brandeis University, 1975), Chapter 1, prepared under a grant from the U.S. Department of Labor, Employment and Training Administration.

23. See fn. 22

24. Sheryl L. Grams, et al., A Study of the Effects of the WIN and Welfare Employment Tax Credits (Minneapolis: IMPACT, Inc., June 1976 draft) prepared for the Labor Department's Employment and Training Administration.

25. 1969 Manpower Report of the President (Washington: Government Printing Office, 1969, p. 106.

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27. State of California, Employment Development Department, Third Year and Final Report on the Community Work Experience Program, April 1976, prepared under contract with HEW.

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30. Comptroller General of the United States, Problems in the Work Incentive Program in Los Angeles and San Diego (Washington: General Accounting Office, January 29, 1975), MWD-75-24, chapter 3.

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32. U.S. Department of Health, Education, and Welfare and other agencies, Study of Selected Aspects of the 1971 New York State Legislative Provisions on Public Assistance Employables, mimeo, March 1972.

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34. Hrach Bedrosian and Daniel E. Diamond, The Impact of the New York State Workfare Program on Employable Welfare Recipients (New York: New York University, 1974) prepared under contract for the U. S. Department of Labor.

35. U.S. Department of Labor, Manpower Administration, Office of Manpower Program Evaluation, Pilot Evaluation Study of the Work Registration Activity Under the Food Stamp Program -- Final Report Mimeo: August 1974.

36. See fn. 31.

37. "Statement of Gregory J. Ahart . . . on the Operation of the Federal-State Employment Service System," May 24, 1976. Before the House Committee on Government Operations, Subcommittee on Manpower and Housing.

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Mr. Fountain. The subcommittee stands adjourned until 9:30 Thursday morning.

[Whereupon, at 12:40 p.m., the subcommittee adjourned, to reconvene at 9:30 a.m., Thursday, July 21, 1977.]

ADMINISTRATION OF THE AFDC PROGRAM

THURSDAY, JULY 21, 1977

HOUSE OF REPRESENTATIVES,
INTERGOVERNMENTAL RELATIONS
AND HUMAN RESOURCES SUBCOMMITTEE
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:43 a.m., in room 2247, Rayburn House Office Building, Hon. L. H. Fountain (chairman of the subcommittee) presiding.

Present: Representatives L. H. Fountain, Elliott H. Levitas, John W. Wydler, and John E. (Jack) Cunningham.

Also present: Delphis C. Goldberg, professional staff member; Pamela H. Welch, secretary; and John Duncan, minority professional staff, Committee on Government Operations.

Mr. FOUNTAIN. The subcommittee will come to order. Let the record show that a quorum is present.

This morning we are continuing our hearings on the aid to families with dependent children program.

AFDC is the Nation's largest and costliest cash assistance program, providing income support for more than 11 million needy people at an annual cost of approximately $10.7 billion. This has been a rapidly expanding program.

During the past 10 years the number of persons assisted by AFDC has more than doubled and program costs have increased fivefold. AFDC is a cooperative Federal/State program in which the Federal Government pays more than half the total costs.

The primary purpose of these hearings is to learn—through a close examination of the AFDC program—how it can be made to operate more efficiently and more equitably.

We are aware, of course, that the administration is actively studying avenues for welfare reform. The newsstories this morning indicate some new recommendations coming out of HEW.

However, I believe that improvements in existing AFDC policies and practices are a prerequisite for the success of any restructuring of our welfare system.

It is essential that both the Congress and the administration have a detailed understanding of how and why our present welfare operations are deficient, and how those deficiencies might be remedied. We must ascertain, for example, why nearly one out of every four families receiving AFDC benefits are ineligible for this assistance or receive incorrect monthly payments.

At the last count, the proportion of ineligible cases ranged from 15 percent in the District of Columbia to less than 1 percent in Indiana, with a national average of 5.3 percent. While 5.3 percent represents a substantial reduction from the 10.6-percent ineligibility rate reported 3 years ago, it is still cause for concern that this very important welfare program continues to perform so poorly.

It is the premise of these hearings that there is a large scope for improving the efficiency, economy, and equitableness of the AFDC program—as well as of other welfare programs—even in the absence of basic structural changes in the welfare system.

We hope, through these hearings, to identify ways in which the AFDC program can be redirected to serve the needy population for which it is intended with maximum efficiency and effectiveness.

We are pleased to have as our witnesses this morning four people who have observed the program at close range. We want to benefit from their expertise in learning the causes for the program's inefficiencies, and how it might best be improved. We are delighted to welcome all the witnesses seated at the witness table.

I will ask Dr. Blanche Bernstein to be our first witness. Dr. Bernstein is the deputy commissioner for income maintenance in the New York State Department of Social Services. She has also served as a professor at the New School for Social Research. Dr. Bernstein's curriculum vitae, as well as the others, will be inserted into the record at the appropriate places.

Our second witness will be Ms. Adele Blong, senior attorney at the Center on Social Welfare Policy & Law. She is substituting for her colleague, Mr. Henry A. Freedman. We are pleased to have you with us, too, Ms. Blong.

We are pleased to welcome back to the subcommittee as our third witness Dr. Richard P. Nathan, senior fellow at the Brookings Institution. Dr. Nathan was extremely helpful to this subcommittee in the course of the consideration of the general revenue-sharing legislation.

Our final witness, Dr. Robert G. Williams, is the vice president of Mathematica Policy Research, Inc. He has been closely associated with several experimental projects in connection with the AFDC program. After his testimony, we will examine the panel.

Dr. Bernstein, we will be pleased to hear from you at this time. We will hear from the others in the order in which I mentioned their names.

STATEMENT OF DR. BLANCHE BERNSTEIN, DEPUTY COMMISSIONER FOR INCOME MAINTENANCE, NEW YORK STATE DEPARTMENT OF SOCIAL SERVICES

Dr. BERNSTEIN. Thank you, Mr. Chairman. I appreciate the opportunity to present testimony today. As I have indicated, the views I shall express are mine and not necessarily those of the New York State Department of Social Services.

Welfare reform is much in the news these days, but it is a long way off—1981, at the earliest, almost 4 years away. Therefore, I think the work of this subcommittee in looking into ways of improving the effectiveness and efficiency of our current system is most important.

I should like to consider the issues involved in achieving these objectives under two main headings which I briefly label "Saving Money" and "Saving Lives." The first deals with reducing eligibility and overpayments—handling applications expeditiously and with compassion toward the client.

The second refers to those families who need welfare—and the vast majority of families do—to allow them to move toward independence as quickly as they can.

I spent about 6 years or so as a critic of the welfare system from my perch at the Center for New York City Affairs at the New School. I took my present job about 2 years ago. It was incumbent on me, therefore, to see whether I could do any better than some of my predecessors, and some of the people in the city administration.

On the basis of my experience, I think we can do better, I think we have. And I think it would be useful if I described some of the actions we have taken in New York State and New York City in the last few years, and indicate their impact.

I am sometimes regarded as parochial because of my focus on New York City's problems, but I point out that I have a very large parish. New York City, itself, has 9 percent of the welfare caseload in the country.

What happens there is important. If it can be improved in New York City, I think it can be improved anywhere in the country.

I would have to say that in the decade from about the early 1960's until about 1971, the administration of welfare in New York City was, indeed, a rather loose affair. It was the days of the self-declaration and the self-recertification, of separation of services, of an era in which—and it is still partly true—no one worker in the system knew anything about any particular family.

Efforts at reform, which began to be effective in 1972, included the replacement of the self-declaration by an interview application, requirements for certain documents, the replacement of the mail recertification by a face-to-face recertification, and the beginning of various matches.

These matches were not done on any regular basis, but still they were matches against unemployment insurance and social security benefits. These resulted in a reduction in ineligibility rates in upstate New York from 16.1 percent in 1973 to 9.7 percent in 1974.

In the city, the improvement did not come so quickly. The decline was only from 18.1 to 16.2 percent, in total ineligibility.

We undertook more intensive measures beginning in 1975. These include what we call a mail survey. The first one resulted in the closing of about 11,000 cases, and two succeeding ones closed about 10,000 each.

The survey involved sending a one-page questionnaire which was quite simple to fill out, with a return envelope, to each welfare case. The direct cost of such a survey in the city is about a quarter of a million dollars. The savings we have estimated at $18 million on public assistance and probably another $7 million on medicaid.

As a result of the successful experience in New York, the State has now mandated that such surveys be done semiannually in counties with 7,000 or more welfare cases, and annually in districts with 2,000 to 7,000 cases. Smaller districts—and it may be of some interest that we have 38 counties in New York State with less than 2,000 welfare cases—may conduct such surveys at their option.

I might add that, in my view, the mail survey cannot be regarded as hassling the client. It is a simple form which should not take more than 15 minutes to complete, and it is, therefore, not an onerous burden.

It does provide us with a great deal of current information that comes in between face-to-face recertification.

I know that a few States are experimenting with the notion of a monthly mail survey. Colorado and California have done so. I would have no objection in principle to such a procedure, but its feasibility requires further study.

A monthly survey requires a degree of sophisticated computers which are beyond the capacity of most States, including New York, at the present time. However, I do think it would be important for the Federal Government to undertake the necessary studies and to assist the States, technically and financially, if it proves feasible to institute the monthly mail survey.

Another major factor in the improvement in the efficiency of the system in New York has come out of matching welfare payments against a variety of other benefit payments, such as social security and unemployment insurance, as well as against State and city payrolls and sometimes intercounty welfare payment tapes.

Each of these matches turns up duplicate cases, sometimes numbering in the hundreds and sometimes a thousand or more. These are subsequently closed or the welfare benefits have been reduced.

We have now organized this on a regular basis in New York so that many of these matches will be done on a monthly basis, some on a quarterly basis.

What has been lacking in New York State, because our unemployment insurance system is based on what is known as a wage-requesting rather than a wage-reporting system, has been a matching against wage records.

In my prepared statement, I indicate to you that Governor Carey has recommended to the legislature the establishment of a wage-reporting system in New York State. I regret to say that the legislature took no action on this. Whether or not it will come up again if they reconvene in October I do not know.

Therefore, I want to make a special request to this subcommittee. A number of times, we have tried to obtain access to the social security records on wage-reporting so that we could match our welfare payment tapes against them.

We have always been refused on grounds of confidentiality, privacy, and so on.

I would point out to the subcommittee that, at least for 1977, the Social Security Administration will continue to receive quarterly wage records. That will change on January 1, 1978, when they move to an annual system.

If we could get access to these records, at least for this year, we could do an enormous amount in my view to clean the welfare payment file in New York. I mean by that that if we could, at least for four quarters, check our welfare payment file against the wage records, I think we would turn up some significant number of people who are working and not reporting their earnings to us.

Mr. **Fountain**. For purposes of emphasis, you are saying that if you had proper cooperation from the Federal Government with respect to social security wage records, you could undoubtedly save many millions of dollars.

Dr. **Bernstein**. Exactly, Mr. Chairman.

Mr. Wydler. What exactly do you want, if the chairman would yield? What would you want the Federal Government to do, specifically?

Dr. Bernstein. We would like to give them our welfare payments tapes.

Mr. Wydler. You want to give them your computer list of all the people who are receiving welfare?

Dr. Bernstein. Yes. We would ask them to run this against their tape of wage records, let us say for the first quarter of 1977, and advise us of any matches—sometimes known as hits.

If they would then tell us, "We see, on both these tapes, someone with this social security number, this name, and this birthdate," we would then take that and look into the case in the local district in New York State, whether it is New York City, Rochester, Buffalo, or elsewhere.

Mr. Wydler. Are these tapes interchangeable? Can the Social Security Administration simply take the tapes that you would supply, put them in their computers, and program them in such a way that it would read out any matches?

Dr. Bernstein. It is technically possible.

Mr. Wydler. It is?

Dr. Bernstein. Yes.

Mr. Wydler. I understand that they have been checking just recently—apparently for the first time—information of that type available on New York City's payroll, those people that are working for the city of New York, and they found that they had a lot of matches there.

That is a story that has been appearing in the newspapers. Apparently it was just recently done.

Dr. Bernstein. Not just recently. That was the most recent match, but New York City has been doing that for about 2 or 3 years now.

Mr. Wydler. Have you done that with the State payroll?

Dr. Bernstein. Yes. We have been doing that for 2 years or so. I think that is done semiannually—possibly a little more frequently than that—but it is exactly these things.

Mr. Wydler. You say you have been refused. Exactly what has happened? Have you written letters, and they have written letters back, or has this just been an informal request? Has this been done formally, informally—what has happened?

Dr. Bernstein. It has been done formally through written requests over a period of several years.

I might say that immediately after our legislature did not act, we decided that we are going to pull together all the letters that have been written and all the answers we have received. From them we are going to try to develop some new approach to the Social Security Administration requesting these records.

Mr. Fountain. Would you send us copies of those letters?

Dr. Bernstein. I would be glad to, Mr. Chairman.

Mr. Fountain. We will see what we can do to follow up on them.

[The letters referred to follow:]

STATE OF NEW YORK
DEPARTMENT OF SOCIAL SERVICES
40 NORTH PEARL STREET
ALBANY, N.Y. 12243

Carmen Shang
Acting Commissioner

Prepared by: Tom Murray
Typed by: Luanne

SEP 7 1977

Hon. Joseph A. Califano, Jr.
Secretary of Health, Education
and Welfare
South Portal Building
200 Independence Avenue SW
Washington, DC 20201

Dear Mr. Califano:

The New York State Department of Social Services has for some time been concerned with the high rate of public assistance case errors attributable to unreported earned income. Because the unemployment insurance system in the State of New York does not encompass wage reporting, the Department of Social Services has turned to the Social Security Administration as the ultimate and only practicable source of earned income data. Unfortunately, in a series of communications dating to 1974, the Social Security Administration has declined to permit access to earned income data for purposes of public assistance eligibility verification.

I feel compelled to raise this issue once again because of the continuing detriment to public assistance administration. The Department of Social Services has had success over the past several years in reducing error rates by means of public benefit and payroll matching. It seems incongruous that the Department of Health, Education and Welfare can continue to urge increased efforts on the part of the States to reduce erroneous public assistance payments while at the same time denying access to a vital tool required to accomplish that goal. The incongruity is clearly illustrated by the policy of the Social Security Administration in permitting access by state welfare departments to earnings and self-employment income records for quality control studies but not for eligibility determinations. Thus, assistance is provided in determining precise error rates but not in reducing them. The Department of Social Services does not find the Social Security Administration position supportable either under the Privacy Act of 1974 or as an administrative expedient.

I therefore request that you grant to the New York State Department of Social Services access to earnings and self-employment income records of the Social Security Administration for the four quarters of 1977 for purposes of establishing eligibility for public assistance. My request is limited to the 1977 records because the January 1, 1978 conversion to an annual reporting cycle by the Social Security Administration will render resulting earned data untimely for public assistance eligibility purposes. Access to the 1977 records should result in substantial savings of federal, state and local funds, and hopefully add impetus to the establishment of an effective earned income reporting system which may be utilized by the New York State Department of Social Services.

I note, in closing, the activity of the HEW Inspector General with respect to Project Match, under which public assistance recipient files are matched against federal and military payroll records to verify declarations of earned income. Project Match clearly evidences HEW's positive appraisal of earned income matching and furnishes additional support for my request or, in the alternative, a cooperative relationship under which the Office of Inspector General would participate in verification of earned income against social security earnings and self-employment income records.

I assure you of the full and continuing cooperation of this Department, both in accomplishing a data exchange and in furthering the goal of effective welfare administration, and look forward to a favorable response to my request.

Sincerely,

/S/

Carmen Shang

bcc: Peter Wynn
Blanche Bernstein ←
James Durkin
Tom Murray

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
SOCIAL SECURITY ADMINISTRATION
BALTIMORE, MARYLAND 21235

FEB 20 1976

DATE 3/4/76
ACTION [illegible]
INFO.
[illegible]
[illegible]
[illegible]
[illegible]
- A J. Durkin

REFER TO
IRI-442

Mr. Stephen Berger
Commissioner, State of New York
Department of Social Services
1450 Western Avenue
Albany, New York 12243

Dear Mr. Berger:

This is in further reply to your inquiry of November 24, 1975, concerning the Social Security Administration's refusal to release earnings information to the State of New York for monitoring public assistance programs.

As you are aware, limited earnings information is released to 14 States, including New York, as part of a quality control study of the Aid to Families with Dependent Children program. This, however, is only an audit conducted in those States which do not maintain their own earnings records. This study was never intended to be a 100 percent review of the program nor was the disclosure of social security records ever authorized for such a purpose.

Your suggestion that the Social Security Administration disclose earnings records to State administrators or match State records with social security earnings histories presents various problems. From the inception of the social security program, we have recognized that its success depends to a great extent on the accuracy of the information individuals provide us about themselves. We have always maintained that a public pledge of confidentiality of social security records is essential to assuring the integrity of the program. Although many nonprogram uses of social security records would, no doubt, have beneficial results, we feel the merits of such disclosures would be offset by the erosion of public confidence in this agency.

Aside from the confidentiality considerations, attempts to match reported earnings against lists of public assistance recipients pose serious administrative problems for us. I noted some of these problems in my letter of February 9. More significant, however, is the fact that the most current earnings data in social security records are from 9 to 12 months old. Therefore, the use of social security earnings information would, at best, detect erroneous payments made a year or more in the past and would be relatively ineffective as an enforcement measure.

The Administrator of the Social and Rehabilitation Service has been charged by the Secretary with the general responsibility for assisting the States in the conduct of their quality control studies. The staff of that organization would be more familiar with the General Accounting Office's report and the specifics of operation of your quality control study than would the staff of the Social Security Administration. Other problems relating to quality control studies might be brought to the attention of the Administrator, Social and Rehabilitation Service, Mary E. Switzer Building, 330 C Street, S.W., Washington, D.C. 20201.

Sincerely yours,

Robert P. Bynum

Robert P. Bynum
Associate Commissioner
for Program Operations

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
SOCIAL SECURITY ADMINISTRATION
BALTIMORE, MARYLAND 21235

REFER TO:
IRI-442

FEB 9 1976

DATE 2/13/76
J. Burke
Commr.
J. Toia
H. O'Neill
D. Bligington
C. Sheng
L. Paterson

Mr. Stephen Berger
Commissioner of Social Services
State of New York
1450 Western Avenue
Albany, New York 12243

Dear Mr. Berger:

Mr. Joseph Kelly, the Regional Commissioner of the Social Security Administration, has advised me of your concern over your inability to obtain from the Social Security Administration information needed to conduct a quality control program for public assistance payments in New York State.

The demands for access to the records of the Social Security Administration have been steadily increasing throughout the years and have reached the point where compliance is impossible without seriously impeding the primary mission of this organization. Unfortunately, the demands accelerated at a time when the Social Security Administration was given the responsibility for the administration of a new and complex program, the supplemental security income program. It, therefore, has been necessary to critically examine all requests for information, even when the information is to be used for the administration of other social insurance or social welfare programs.

The passage of the Privacy Act further emphasized the need for a complete reevaluation of policies regarding disclosure of information. That act does not specifically prohibit disclosure of the information considered necessary by your Department, but it does place serious practical obstacles against disclosure. Section 552(c) of Title 5, U.S. Code, requires that there be maintained an accounting of instances of disclosure made without the consent of the individual concerned. This accounting must include details as to the date, nature, and purpose of the accounting, as well as the name and address of the person or agency to whom the disclosure was made. This provision of the Privacy Act is not open to interpretation; if the disclosure is made, the accounting must be maintained. Not only are we unable to keep pace with requests for disclosure, we are even less able to maintain an accounting of the disclosures.

However, an accounting need not be maintained when the disclosure is made with the consent of the individual. Thus, it may be possible for the Social Security Administration to cooperate to the extent of furnishing benefit information where the individual has consented to the release of such information. This information appears on reports routinely compiled by the Social Security Administration for internal use and could be furnished with a minimum of effort in the individual case. My only reservations concern volume as the cumulative effort could be substantial indeed, especially when it is considered that the Social Security Administration could not refuse to grant to other States the information it has agreed to give to New York State. If you consider it feasible to obtain the consent of the individual, you might wish to supply estimates (both in percentages and numbers) of the individuals about whom you would require information and the Social Security Administration will further consider whether disclosure is feasible.

Release of earnings information is a different matter. It cannot be made available with the relative ease of benefit information, and I can offer no commitment to make such information available other than through the Federal Quality Control Program.

Sincerely,

Robert P. Bynum

Robert P. Bynum
Associate Commissioner
for Program Operations

Prepared by: Mr. C. Kavanaugh

12/8/75

Dear Mr. Kelly:

Over the past three years New York State has been one of the leading proponents of quality control in public assistance. Our efforts, as you know, have not been limited to the mandated Federal programs but encompass all segments of assistance including the State's Home Relief Program (general assistance) and non-Federal Medical Assistance Program.

We were very perplexed to learn through Messrs. Malkin and Katz of your staff that the Social Security Administration, through their interpretation of the Privacy of Information Act of 1974, has created a barrier to our efforts in cleansing our statewide caseload by denying benefit information on Home Relief and Food Stamp recipients. We assume this will extend as well to the non-Federal Medical Assistance cases that we will be reviewing in the near future.

As you know, we have been striving for over one year to obtain SSA's permission to access their employment file in order to identify assistance recipients who receive earned income. To date this procedure has been limited to AFDC cases selected for review in the Federal Quality Control Program.

The purported partnership between Federal and State Governments in the area of welfare is indeed becoming more limited. Since the Privacy of Information Act is apparently open to wide interpretation, I strongly urge your cooperation in conveying our concern in this matter to the proper authorities in Washington. Since all monies spent in welfare programs involve taxpayers' money, it is our duty to utilize all possible resources to assure that these payments are necessary and correct.

Thank you for your cooperation in this matter.

Sincerely,

/s/ 12/8/75
Stephen Berger
Commissioner

Mr. Joseph Kelly, Regional Commissioner
Social Security Administration
Department of Health, Education, & Welfare
26 Federal Plaza   Room 4033
New York, New York 10007

SB:CK:pf

James A. Durkin/Ceil Kimm

November 24, 1975

Dear Mr. Secretary:

I have received the GAO report on eligibility of the medically needy and I must confess that I am dismayed; not by what the report says but rather by what it fails to say. Although we take no exception to the facts as presented and are committed to correcting the basic problems, we believe that further elaboration is needed on several issues raised by GAO before conclusions can be reached.

There is a strong inference in the report that New York State certifies claims without reviewing their accuracy. This is a wholly inaccurate description of the process which, although far from airtight, does provide basic assurances of the reasonableness of claims. In the first instance because our program is locally administered, we place the initial burden of review on the local districts. They are required to maintain a "Self Audit" process whereby they reconcile, verify and attest to the accuracy of claims submission. At the State level, the claims are accepted after limited mathematical scrutiny; however, we reserve the right to post-audit under a system that was fully operational in our Audit Office at the time of the GAO audit. In addition, New York State's Department of Audit and Control, an independent Controller function in this State, is an integral part of the post-audit of local district claims and an active overseer of this Department's role in accounting for State and Federal funds.

It is interesting to note that the computer malfunction in question and the associated claiming error was in fact under review by our staff prior to the GAO review. The basic error was detected as part of an extensive post-audit of 1973, 1974 claims and the error would have been corrected without GAO observation. I am confident that our continuing surveillance of New York City claims is sufficient to protect State and Federal interests.

On a second and more significant point, I find it very disheartening that the report skirted the true issue that prevents States from gaining control over ineligibility caused by employment earnings. New York State could control income-related ineligibility if it had access to Social Security earnings files but the Social Security Administration has steadfastly refused such access. GAO was fully aware of the circumstances together with the fact that SSA routinely uses the earnings files in their own surveillance of the SSI program yet GAO declined to make any meaningful recommendations. At a minimum, I would be interested in SSA's rationale for this dual standard for three different programs (SSI, AFDC, MA) funded from essentially the same taxpayer pocket but varying from the standpoint of who administers the program.

Since earnings account for about 15 percent of the errors in the AFDC program and a full 50 percent of the errors in the Medical Assistance program, I feel obliged to appeal to you for reconsideration of the original decision denying us access to SSA files or the alternative of requiring SSA to match their files with our tape inputs. The only other alternative is a complete replication of earnings files at the State level; a feat which even in better economic times would result in a flagrant waste of taxpayer money because of duplication of an already existing system at the Federal level.

I will anxiously await your response on this since we are constantly seeking ways to improve administration in this State. I would also be happy to discuss the subject with you at your convenience or furnish any other information that you might need in reaching a decision.

Sincerely,

/s/ 11/24/75

Stephen Berger
Commissioner

The Honorable F. David Mathews
The Secretary of Health, Education,
and Welfare
Office of the Secretary
North Building
330 Independence Avenue, S. W.
Washington, D. C. 20201

SB:JAD:ck

STATE OF NEW YORK
DEPARTMENT OF SOCIAL SERVICES
1450 WESTERN AVENUE
ALBANY, N.Y. 12203

ABE LAVINE
COMMISSIONER

December 19, 1974

Dear Commissioner Cardwell:

Thank you for your letter of December 6, 1974 in which you indicate that your present regulations do not permit you to provide us with earnings or employment information.

We are, of course, disappointed in your position since we continue to feel that this resource is vital to our efforts to reduce our ineligibility and overpayment rates in the ADC Program to meet the tolerance level which has been set by the Department of Health, Education and Welfare. We are gratified that you are re-evaluating this policy, and hope that our request will be given further consideration.

In the meantime, we are planning to submit our Quality Control sample to the Social Security Administration in accordance with APA-PI-71-7 so that we can determine the usefulness of the information. We will then share this information with Social Rehabilitation Service as requested in Mr. James Dwight's letter of October 17, 1974.

Sincerely,

Abe Lavine

James B. Cardwell
Commissioner of Social Security
Dept. of HEW - Social Security Administration
Baltimore, Maryland 21235

THK:SK:rv
cc: Mr. Maher

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
SOCIAL SECURITY ADMINISTRATION
BALTIMORE, MARYLAND 21235

REFER TO:
IR1-442

OFFICE OF THE COMMISSIONER

December 6 1979

DATE Dec. 12, 1979
Mr. Wilson
[illegible]
Commissioner
E. Miller
M. [illegible]

Mr. Abe Lavine
Commissioner
State of New York
Department of Social Services
1450 Western Avenue
Albany, New York 12203

Dear Mr. Lavine:

This refers to your letter of August 16 concerning the disclosure of employment information for purposes of administering the Aid to Families with Dependent Children Program.

As you may know, the confidentiality of social security records is required by statute which provides that disclosure of information is permitted only as provided in regulations prescribed by the Secretary of Health, Education, and Welfare.

The present regulations governing the disclosure of information to agencies administering programs for which grants-in-aid are paid under the Social Security Act may be found in volume 20, Code of Federal Regulations, section 401.3(g)(4) and (5). An examination of this provision reveals that the regulation provides for the disclosure of specifically enumerated types of information and that earnings or employment information is not included among those. The only exception to this would be under section 401.3(g)(6) where the purpose is to locate an absent parent who is obligated to provide support. These provisions exclude the disclosure of earnings information primarily because they were never intended to be used as an enforcement device.

There have been no modifications of the limitations contained in the original instructions, APA-PI-71-7, other than to furnish information for quality control purposes. We have confirmed our understanding of this matter with representatives of the central office of the Social and Rehabilitation Service.

While I appreciate the problems which State agencies are now having in their efforts to avoid erroneous payments, in light of the present feelings now being expressed in many circles about invasion of privacy, expansion of the present policy with respect to the disclosure of information from social security records is not now contemplated. However, we are currently reevaluating the policy with respect to the entire area concerning confidentiality and disclosure and you can rest assured that the problems such as the ones you describe will be considered seriously.

Sincerely,

JBCardwell
James B. Cardwell
Commissioner of Social Security

STATE OF NEW YORK
DEPARTMENT OF SOCIAL SERVICES
1450 WESTERN AVENUE
ALBANY, N. Y. 12203

ABE LAVINE
COMMISSIONER

October 28, 1974

Dear Mr. Dwight:

Thank you for your letter of October 17, 1974 concerning our request for large scale employment information from the Social Security Administration. You will recall that we have had previous correspondence regarding this matter.

My staff is reviewing your suggested alternatives for using the earnings verification system negotiated between SRS and SSA. We are in the process of developing case profiles of error prone cases as determined by the latest quality control sample. As soon as these are developed we will begin submitting these cases to SSA. I would like to add, however, that we still feel that matching our entire ADC caseload against SSA employment information is the most preferred method.

My staff will be contacting Mr. Guckenheimer and Mr. Bowes to work out the necessary arrangements.

Sincerely,

10/31/74 ✓

Abe Lavine

Mr. James Dwight
Social Security Administration
330 C Street, S.W.
Washington, D. C. 20201

sent upstairs
10/30

ay

cc: Mr. Maher
Mr. Sacks

SK:rv

TK, FYI -- gave pink slip directly to S. Katz

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
SOCIAL AND REHABILITATION SERVICE
WASHINGTON, D.C. 20201

OFFICE OF THE ADMINISTRATOR

DATE: 10/22/74
ACTION: Kilcoyne
INFORMATION:
Commissioner
Mr. Maher
Mr. Sacks

9/23 Doc Sec #0

F/U

11/13

file SSA

OCT 17 1974

Mr. Abe Lavine
Commissioner
Department of Social Services
1450 Western Avenue
Albany, New York 12203

Dear ~~Mr. Lavine~~ Abe:

This is in response to your letter of August 16 in which you state that you are meeting resistance from the Social Security Administration in regard to obtaining large scale employment information.

Since receiving your initial June 25 letter as well as your more recent letter, my staff have had additional discussions with staff of the Social Security Administration in relation to the New York situation.

The present contract between SRS and SSA, negotiated in 1972, establishing the earnings verification system for States for whom SSA maintains individual wage records is limited to earnings information to be used in the Quality Control program, i.e., in New York, the system is intended to clear the semi-annual 1200 AFDC QC sample cases for employment information. We are willing to renegotiate this contract involving a change to computer processing if it can be demonstrated that the mass clearance of the State's total caseload has merit. To date, none of the other States now participating in this clearance system has requested expansion to their entire AFDC caseload. Pending some experience by New York in the use of this system, we are deferring any renegotiation at least for the present. In the meantime, I would suggest the following:

1. The State might implement the system for the QC sample case, at least for one or two calendar quarters. Based upon the resulting experience, the State would have a basis to make a determination regarding the usefulness of the information obtained. We wish to re-emphasize that implementing the system does entail substantial interpretation on the limitations of the data to State staff.

2. The State could develop case profiles of error prone cases in the area of earnings and submit these identified high risk cases to SSA to clear for earnings information. Although this alternative may also necessitate renegotiating the contract with SSA if the number is significantly higher than the QC sample, the information obtained could be anticipated to be more beneficial to the State than simply clearing either all QC sample cases or the entire AFDC caseload. We would suggest exploring this option in view of the fact that the revised QC system now provides the capability for a more sophisticated analysis of the data than it has in the past, e.g., the source of earnings errors are more definitively identified by the nature of the error as well as whether or not the presence of earned income is shown in the case record (Items O and U on the QC review schedule).

In order to facilitate the resolution of any questions or concerns regarding the implementation of this system, please feel free to contact or telephone either Mr. Ludwig Guckenheimer, Director, State Systems Management/APA (202-245-1699) or Mr. John Bowes, Director, Division of Quality Control Management (202-245-0788).

Yours very truly,

James S. Dwight, Jr.
Administrator

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
SOCIAL SECURITY ADMINISTRATION
BALTIMORE, MARYLAND 21235

SEP 5 1974

REFER TO:
IAD-7

OFFICE OF THE COMMISSIONER

DATE: 9/9/74
ACTION: Info. Only
INFORMATION:
Commissioner
Mr Maher
Mr. Kilcoyne
Mr Socks
Mr Katz

Mr. Abe Lavine
Commissioner, Department of
Social Services
1450 Western Avenue
Albany, New York 12203

Dear Mr. Lavine:

This is to acknowledge your inquiry of recent date about access to Social Security Administration employment records.

The appropriate members of my staff are giving the matter attention, and we will be in touch with you again as soon as possible.

Sincerely yours,

James B. Cardwell
Commissioner of Social Security

August 16, 1974

Dear Commissioner Cardwell:

On July 17, 1974, Mr. James S. Dwight, Jr. shared with us Program Instruction APA-PI-71-7 which provides that States could secure access to Social Security Administration employment records. Our staff has been in contact with the Regional Office who indicated that the system is intended only for Quality Control sampling, and is not available for large scale utilization.

I know you are aware that we are making intensive efforts to reduce our ineligibility and overpayment rates in the ADC program. One of the elements which contributes greatly to these error rates is unreported earned income. We have attempted to meet this problem through a variety of methods. We have matched our public assistance rolls against public payrolls, but we have no way of securing information concerning the private sector without the cooperation of the Social Security Administration.

We are, therefore, requesting that we be permitted access to Social Security employment information so that we can verify this information against our public assistance payroll tapes for current information concerning earned income of our recipients.

I would appreciate anything you could do to make this information available to us.

Sincerely,

a L 8/21

Abe Lavine

James B. Cardwell, Commissioner
Social Security Administration
6401 Security Boulevard
Baltimore, Maryland

SK:rv

cc: Mr. James ~~[illegible]~~ Dwight

August 16, 1974

Dear Mr. Dwight:

You will recall our recent correspondence concerning our request for assistance in obtaining employment information from the records of the Social Security Administration.

We have had resistance from the Social Security Administration relative to our request for large scale utilization of the system outlined in Program Instruction - APA-PI-71-7. I am attaching a copy of my letter to Mr. James Cardwell concerning this matter. Anything you can do to assist us will be appreciated.

Sincerely,

A.L. 8/21

Abe Lavine

Mr. James Dwight
Social Security Administration
330 C Street, S.W.
Washington, D.C. 20201

Attch:

SK:rv

July 29, 1974

Dear Mr. Dwight:

Thank you for your letter of July 17, 1974 concerning our request for assistance in obtaining employment information from the records of the Social Security Administration.

We appreciate your assistance in this matter, and our staff has begun following up with the Social Security Administration so that we may participate in their claims clearance.

Sincerely,

Abe Lavine

James S. Dwight, Jr.
Administrator
Department of Health, Education
and Welfare
Social and Rehabilitation Service
Washington, D.C. 20201

[illegible]

[illegible]

cc: Mr. Fisher
Mr. Kilcoyne
Mr. Sacks

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
SOCIAL AND REHABILITATION SERVICE
WASHINGTON, D.C. 20201

OFFICE OF THE ADMINISTRATOR

DATE
ACTION
INFORMATION
Commissioner

JUL 17 1974

Mr. Abe Lavine
Commissioner
Department of Social Services
1450 Western Avenue
Albany, New York 12203

Dear Mr. Lavine:

Thank you for your letter of June 25 in which you speak of the State's continuing efforts to reduce error rates and, in this regard, request assistance in obtaining employment information from the records of the Social Security Administration (SSA).

We are very aware of the concerted efforts underway in New York to reduce errors in the AFDC caseload. We know also that the error rate is high in regard to earned income and that a wage clearance system would help to meet the problem.

It may be that you are not aware that in 1972 SRS did negotiate with SSA and did establish an earnings verification system for use by the 14 States for whom SSA maintains individual wage records. New York is one of the States to whom this system is and has been available. (A similar system was established with the Department of Labor for the other 38 States whose individual records are maintained by the State Employment Service.)

On receipt of your letter, we contacted SSA and learned that New York has not, to date, implemented this clearance system. They advise that entrance into the system is available to the State as soon as desired, in accordance with the established quarterly scheduling of inquiries. We certainly encourage the State to enter the system and, for ease of reference, we are enclosing the instructional material issued to the States in March 1972 which outlines the procedures to implement. These procedures have presented little problem for the States because they are relatively simple and easy to implement.

We do want to call your attention to the purpose that this particular clearance system intends to serve since there has been some misunderstanding among the States in the past. The earnings information reported by SSA is necessarily "dated" information. This results from the fact that employers report earnings quarterly and the earnings are reported first to the Internal Revenue Service for posting before they are sent to SSA. Therefore, the wage information cannot be used to verify current employment. It can, however, provide the State with supportive or "lead" information.

It is this earnings verification system that the General Accounting Office is using in its current Medical Assistance Review in New York State.

We appreciate your continued commitment to reduction of eligibility and payment errors in the AFDC caseload and to improved management of the program.

Yours very truly,

James S. Dwight, Jr.
Administrator

Enclosure

June 25, 1974

Dear Mr. Dwight:

I know you are aware of our continued efforts to reduce our ineligibility and payment error rates in New York State to meet Federal tolerance levels for eligibility and payment errors in the AFDC Program.

One of the eligibility components which continues to be a problem both in eligibility and over-payment is unreported earned income. We have attempted to meet this problem through a variety of methods. We have matched our Public Assistance rolls against public payrolls but we have no way of securing information concerning the private sector without the cooperation of the Social Security Administration. We have requested the Social Security Administration to make available to us employment information. If this were available to us we could verify this information against the public assistance payroll tapes for current information concerning earned income of our recipients.

We understand that there is precedent for making this information available. The General Accounting Office is currently performing a Medical Assistance Review in New York State, and the Social Security Administration has made this information available to them.

I would appreciate anything you can do to help us secure the cooperation of the Social Security Administration in making this information available.

Sincerely,

Abe Lavine

Mr. James Dwight
[illegible] Administration
330 C Street, S.W.
Washington, D.C. 20201

[illegible]
cc: Mr. [illegible], Mr. [illegible]
Mr. [illegible]

Mr. Wydler. We would like to try to help you, but we need a bit more information.

You say you were turned down on the basis of confidentiality?

Dr. Bernstein. Yes.

Mr. Wydler. Was there a specific section of the law referred to, or was this just somebody's decision that this was confidential?

Dr. Bernstein. No. There is a specific section of the law. I am sorry that I cannot quote the number to you.

We know that section of the law. It does say that these records shall be confidential. However, we take the position that we are a governmental agency, that we are dealing with a welfare client and that we have an obligation to check the eligibility of the client to insure that that client is eligible and for the amount of money which has been computed.

We feel that we should have this; "we" being the New York State Department of Social Services and not some individual, not some person concerned with selling a sofa and knowing what your credit rating is.

We are a governmental agency with a responsibility for running a welfare program, and for running it efficiently and effectively.

These records are essential to our running it efficiently and effectively.

So far we have not been persuasive—or at least we have not been successful. We have tried to be persuasive. I hope we can be, at least for this year, because annual records will not help us. They are too stale. However, the quarterly records would be very helpful.

If we can have it for this year and also prove to our own legislature how much money is saved, I think we could then get a wage reporting system established in New York State and keep it going.

Mr. Wydler. We better try to help you.

Dr. Bernstein. Thank you very much.

Mr. Fountain. Dr. Goldberg would like to ask a clarifying question.

Dr. Goldberg. Dr. Bernstein, you indicate in your statement that New York has already moved to an organized system of monthly matches against unemployment insurance, social security, and some other data bases.

Would you tell us the source of the social security information for that matching and how it differs from the quarterly wage reports to which you would like access?

Dr. Bernstein. Those are the people who are receiving social security benefits, supplemental security income benefits, unemployment insurance benefits, and that is very helpful. However, that does not touch those people who are working and receiving wages.

Dr. Goldberg. You are interested in completing the picture by ascertaining whether or not there is unreported wage income for employed persons who are on the rolls?

Dr. Bernstein. Exactly.

Dr. Goldberg. Thank you.

Mr. Fountain. Do you have a question at this time, Mr. Cunningham?

Mr. **Cunningham**. I would just share with the chairman that Charlie Morris, prior to his coming to the State of Washington, was in New York and worked a lot on this.

On this IRS ruling, it is my understanding that as far as the Government interface is concerned it is a ruling, not the law, that prohibits them from sharing with another governmental entity.

It is true that they are prohibited by law from making that information available to private individuals. I am certainly most supportive of the chairman's desire to go after that one.

Mr. **Fountain**. We will pursue it because I do not think the Congress ever intended that information be withheld under circumstances such as you have described, Dr. Bernstein.

You may proceed with your statement.

Dr. **Bernstein**. Thank you very much. I will skip over a bit of it.

I do want to say that obviously, in terms of what I have said and in terms of our experience in New York, these cross-checks of benefit payments and wage records must be done to insure the integrity of the welfare system.

Another important activity that we have undertaken in New York, and on which I base high hopes for results, has been a revision of our application procedure. Again, since 1973, when we did eliminate the self-declaration and we did adopt a long application form, we do ask for documents, but these were so much paper. That is the best way to describe it.

Income maintenance specialists were very busy checking boxes to be sure that the birth certificate was there, the residency was there, but there was not really a probing interview with the client to determine what had been the past history, how they had managed, where was this absent father and where he would be reached, were the three children actually living at home, and so on.

We developed—and we worked very closely with the city in developing it—a new procedure, training a staff, and we instituted this in seven demonstration centers. The results were quite extraordinary.

In those seven centers, if we compare the acceptance ratio—that is, of those cases that applied how many were accepted—before we instituted this procedure and after, we find that the rejection rate went from about 28 to 45 percent. We then looked at those rejections to insure that they were legitimate and not the result of some harshness.

Almost all of them were legitimate. Therefore, as we move ahead with this procedure—and it is not easy—it takes a lot of retraining of staff. The income maintenance specialists are not accustomed to this kind of interviewing, but it can be done.

I think that if we can establish this throughout the centers in New York City by the end of this year, we will see some very significant results in 1978.

Mr. **Wydler**. Are you now hiring more people to do this administrative work than you were in 1973?

Dr. **Bernstein**. I think at the moment in New York City they probably have fewer people on staff than in 1973.

Mr. **Wydler**. I can remember very well the historic moment when we adopted that system of, "Just tell us you need it and we will send you the check" program. It really was not fought against very hard by anybody. The attitude generally was, "Well, if they want it, give it to them." I can remember that very well.

We really learned a lesson, I think. I don't know.

Dr. **Bernstein.** I hope so. I was one of the critics of that system. I think we are now beginning to do something better.

I might say that in upstate New York there is, of course, a different approach to these things. In the first place, even the cities are very much smaller. Also, as I indicated, we have 38 counties with fewer than 2,000 cases. Everybody knows everybody.

You don't need to worry about the client reporting that he has moved. The post office knows it and lets you know. I don't think they are supposed to do that, and I am exaggerating.

However, New York City has been a real problem, and that is where we have 70 percent of our caseload. As I indicated, we have there 9 percent of our national caseload. That is where I have focused my attention.

I do want to say that I think, perhaps, New York City has not received quite as much credit as it should have received for what it has accomplished so far because what I have been describing has achieved some success.

Ineligibility rates, which stood at 16.2 percent in New York City in 1974, were reduced to 10.4 percent in 1975, and it looks like it will go down to about 8.3 percent in the first half of 1977.

Overpayment rates—and these can involve tens of millions of dollars—which were 30.9 percent in the city and 27.1 percent in upstate in 1974, dropped to 22.1 and 16.6 percent, respectively, in 1976, and there is a further drop in the first half of 1977.

Mr. **Fountain.** I would interrupt you at this point. As you were presenting your statement, I found some different figures in your written text.

On page 3 of your written statement you say, "Ineligibility rates upstate dropped from 16.1 percent in 1973 to an average of 9.7 percent in 1974 and in the city from 18.1 to 16.2." Were you reading from another place?

Dr. **Bernstein.** Yes; I am reading from another place now.

Mr. **Fountain.** Oh, I see. I lost you.

Dr. **Bernstein.** I pick up that 16.2 percent figure in 1974 in New York City and indicate that that figure was reduced to 10.4 percent in 1975, and it looks like to 8.3 percent in the first half of 1977. That is a significant drop.

In addition, overpayments are dropping, and underpayments. We must be concerned with underpayments, too. The rate of those is declining a bit.

I would like to summarize just briefly a few things that we hope for from the Congress this year. These are now in bills that are under consideration.

One is, indeed, the substitution of a standard deduction for all the detailed deductions in the food stamp plan, and the elimination of the purchase price. This will greatly simplify life for administrators and clients of the food stamp program. It will reduce, again, administrative burdens.

Mr. **Fountain.** Will you tell me the extent to which your personnel has been reduced now as compared to—I believe you said—about 5 years ago?

Dr. Bernstein. I cannot give you the figures. I did not bring those down with me, but I do know that New York City cut personnel rather heavily in 1976, the early part of 1976. Even though some people have been hired back recently—mostly in the food stamp program—I think the total personnel level in New York City is below what it was in 1973.

Mr. Fountain. And it was during this period of fewer workers that you made these accomplishments; is that right?

Dr. Bernstein. Yes; we did.

It may be that they should hire some more people. My own view has been that it is not necessarily saving to reduce personnel, and it may not have been a saving in the State in the early part of 1976.

This is something we are going to have to look into at the State level to a greater extent than, perhaps, we have in the past—that is, administrative costs in the various counties and how they stack up against each other and whether or not they make sense.

Another piece of Federal legislation that we are hoping for as part of H.R. 7200 is the increase in the vendor-restricted payments from 10 to 20 percent of the caseload.

Mr. Wydler. Those buzzers mean that there is a vote going on so we will be coming and going, but don't let it bother you, please.

Dr. Bernstein. I do understand.

In connection with this change which is embodied in H.R. 7200 lifting the restrictions on vendor-restricted payments from 10 to 20 percent, I want to say that this will be a big help to us in New York in all of these cases where, as a result of past mismanagement, people don't pay their rent or their utility bills for several months and then are on the verge of eviction.

We must either give them duplicate payments and then try to recoup, or we must pay for moving expenses and set them up in another place. We will be able to avoid a lot of this.

I would also like to call to the attention of this subcommittee that we would like a more sensible interpretation of the present law. We had a situation in New York in which a retroactive rent increase was granted to 20,000 tenants in the several public housing projects in New York City.

The amount involved was $1 million. We did not wish to issue 20,000 checks to the 20,000 tenants at an average of $50 apiece and then to have those tenants turn over those checks, or their own checks or cash to the Public Housing Authority. This was expensive, and we also knew that in accordance with usual experience some of those checks would not be turned over and we would have to issue duplicate checks, et cetera. We asked for permission to consider this one check for $1 million from the Human Resources Administration to the New York City Housing Authority as one restricted payment. We were turned down. Therefore, we still face a really quite silly problem.

I do not know whether this subcommittee can do anything about it, but I did want to bring it to your attention.

The other major legislative change that we would like to see is one which has now been proposed by the administration and—I learned yesterday—incorporated into bills by Senator Curtis.

That would do two things with respect to AFDC mothers who are working. It would substitute a standard deduction—a percentage of gross income—in place of the detailed work expenses and taxes and so on. It would also change the base for calculating the 30 and a third disregard from 30 and a third of gross income to 30 and a third of net income after the deductions of the work expenses, or the percentage of gross income for work expenses, and child care.

These changes would have the effect, first, of greatly simplifying the administration. Second, they would have the effect of reducing the present cutoff for an AFDC mother who was working from $29,000—although at that level she receives only a tiny cash grant, but she is eligible for medicaid and food stamps—to about $13,800, That would become the cutoff with a 20-percent deduction for work expenses and taxes, and about $200 a month in child care.

This is, of course, a considerable improvement.

In my own view, it does not go quite far enough because even at $13,800 we are leaving an AFDC client at a level which is higher than the Bureau of Labor Statistics' lower level of living, which is now at about $10,040 for the country as a whole and $10,940 for the cities.

My own recommendation would be that the 30 and a third should be reduced a bit more so that the cutoff point becomes the BLS lower level of living.

Finally—because I think I have taken more time than I am entitled to—let me just briefly refer to the other problem; not saving money, but saving lives.

The people who are on welfare and who need welfare have a lot of problems other than the need for money. In a study that I did in 1975, what came through was that family life among families at the welfare level suffered from a host of serious social problems.

We are not addressing ourselves to those problems. We must do so. We need the help of the Federal Government, financially and technically, in somehow making use of our present system to deliver necessary social services to families who are on welfare to help the children with their education problems, to help the mothers cope with adolescents, and to help the young mothers of 18 or 19 finish their high school education so that they can improve their lives as quickly as possible.

Thank you.

Mr. Wydler [presiding]. Thank you for your excellent testimony.

[Dr. Bernstein's prepared statement follows:]

PREPARED STATEMENT OF DR. BLANCHE BERNSTEIN, DEPUTY COMMISSIONER FOR INCOME MAINTENANCE, NEW YORK DEPARTMENT OF SOCIAL SERVICES

I am Blanche Bernstein, Deputy Commissioner for Income Maintenance, New York State Department of Social Services. I appreciate the opportunity to present testimony to the Sub-committee today. I should explain that the views I shall express are mine and not necessarily those of the New York State Department of Social Services.

Welfare reform is much in the news these days but we are all aware that the President and Secretary Califano do not anticipate that a new system can be put into place before 1981 at the earliest, almost four long years away. It is of immediate importance, therefore, to consider how the current AFDC program can be improved and I commend this Sub-committee for undertaking this task.

I should like to consider the issues involved in improving the efficiency and effectiveness of the administration of AFDC under two main headings which might briefly be labeled 1) saving money and 2) saving lives. To expand this description a little - the first covers such matters as reducing ineligibility and over or underpayments, handling applications expeditiously, in accordance with the rules and regulations and with compassion toward the client; the second refers to helping those families who need welfare - and the vast majority of families on welfare do need it - to move toward economic independence as rapidly as may be possible in the individual case.

As background to what I have to say, I should perhaps explain that before coming to my present position just two years ago, I spent some years as Director of Research Center for New York City Affairs, New School for Social Research. During that time, I did a number of studies of various aspects of the welfare problems with a particular focus on the failings of the welfare administration in New York City and, to some extent, in the rest of the State. In my present position, it was incumbent on me to see whether it could be improved. With respect to those matters which I have labeled as saving money, it can be. Indeed, much progress has been achieved.

I believe it will be useful to describe some of the actions we have taken in New York in the last two years and their impact. New York State has about 12 percent of the nation's AFDC caseload and New York City alone about nine percent. The common view that welfare is a mess is due in some measure to the extent of welfare abuses in New York City. If it can be improved there, it can be improved anywhere.

The fact of the matter is that in New York State, and especially New York City, the administration of the welfare program in the 60's and early seventies left much to be desired. Indeed it was loose. These were the years of the self declaration, that is the applicant filed a form indicating the need for assistance which was accepted with little investigation of its accuracy - or the mail recertification for eligibility, again a statement by the client which was not verified by the welfare department - of the separation of income maintenance from the service functions, and the organization of the welfare centers in such a way that the client did not deal with any one worker or group of workers and no one worker or group of workers had responsibility for any particular client. It was during the years 1965 - 70, a period of rising employment and decreasing unemployment that the AFDC and Home Relief caseload in the State doubled and more than doubled in the City. It was, in brief, a disaster. I must quickly add, however, that the State and City do not bear the blame alone; the federal government shares in it since the mandate for separation was federal as was the approval for the self declaration and the mail recertification.

Efforts at reform based on State legislation passed in 1971 began in 1972 - 3. The self declaration was replaced by an interview application form and requirements were established for documentation such as birth certificates, school attendance records, rent receipts, etc. Similarly, the mail recertification was replaced by a face-to-face recertification requiring the recipients presence at the recertification site. The impact of these measures, along with some other efforts such as matching welfare payments against such files as unemployment insurance and Social Security benefits were substantial. Ineligibility rates up-state dropped from 16.1 percent in 1973 to an average of 9.7 percent in 1974 and in the City from 18.1 to 16.2 . Overpayment rates also dropped slightly.

More intensive measures were taken to reduce ineligibility and over and underpayment errors beginning in 1975. These include -

- A mail survey of the entire caseload - AFDC and General assistance - completed in February 1976 resulted in the closing of 11,000 cases and a second completed in November 1976 yielded over 10,000 closings as did a third completed in May 1977. About half of these cases remain closed for six months or more. The mail surveys also provide information as a basis for changes in the grant which yield additional savings.

  The survey involves sending a one page questionnaire, quite simple to fill out, with a return envelope to each welfare case. The direct cost of a mail survey in the City is about $250,000, the savings on public assistance alone are estimated at about $18 million not including about $7 million on medicaid costs.

As a result of the successful experience in New York City, the State has now mandated that such surveys be done semi-annually in counties with 7,000 or more welfare cases and annually in districts with 2,000 - 7,000 cases. Smaller districts may conduct such surveys at their option.

I might add that in my view the mail survey cannot be regarded as hassling the client. It is a simple form which should not take more than 15 minutes to complete and is therefore not an onerous burden. But it does uncover situations in which the client has moved and his whereabouts are unknown, changes in family composition, as well as those who for whatever reason do not choose to respond, and some who ask that their case be closed. I am aware that a few states are experimenting with a monthly mail survey. I would have no objection in principle to such a procedure but its feasibility requires further study. A monthly survey would require a degree of computerization beyond the capacity of most states, including New York, at the present time. I hope the federal government undertakes the necessary studies and prepares to assist states technically and financially if it proves feasible to undertake such a procedure.

Matching of welfare payments against a variety of other benefit payment and wage records is an essential element in the effort to reduce ineligibility and overpayments. In New York State, we have moved from a sometime matching against some benefits payments to an organized system of monthly matches against Unemployment Insurance, Social Security and SSI benefits, periodic matches against State and

City or county payrolls, as well as some inter-county matches of welfare payment files. Each of these matches turn up cases sometimes numbering in the hundreds, sometimes a thousand or so which are subsequently either closed or welfare benefits are reduced.

What has been lacking in New York State has been a matching against wage records. The Unemployment Insurance system in New York State is based on a wage requesting rather than the wage reporting system which prevails in 36 states in the country. We have tried many times over the last several years to obtain access to the quarterly wage reports made to the Social Security Administration, but have always been turned down despite the federal government's interest in reducing eligibility and overpayments and their frequent complaints about the high rates in New York State. Governor Carey has recommended to the Legislature the establishment of a wage reporting system in New York. I do not know what the Legislature will do, but if it is established we estimate that when it is fully operative it will save about $150 million per year.

In a perfect world, no one would ever make mistakes, avoid full disclosure, or cheat. In our imperfect world, welfare clients and workers may and sometimes do all these things. If we want to assure the integrity of the welfare system, we must do these cross checks and it is my view that the federal government should both encourage and facilitate them.

The application procedure or interview is a crucial factor in maintaining the integrity of the welfare system. Once an ineligible family gets onto the welfare caseload, it is not all that easy to get them off. As I have indicated, we do have a detailed application form in use in New York. But the application worker did little probing to determine whether the information the applicant presented was consistent or any checking to insure that the documentation was valid.

State and New York City staff working cooperatively have developed a new application procedure and trained staff in seven of the 44 income maintenance centers in the City. The new procedure includes both a more profound discussion of past management, and the absent father and verification of residence and family composition. The provisional results in the seven demonstration centers indicate an increase in the rejection rate for new applicants from 28 percent of all applications to over 45 percent,including both AFDC and Home Relief. A review of a sample of cases rejected showed almost all were legitimately rejected. It is anticipated that the new procedure will be extended to all centers in the City by the end of 1977. Further, similar procedures will be followed in cases which are closed and reapply for assistance within 30 days, cases which are now almost automatically reopened, and to cases called in for face - to face recertification.

All these efforts I have described have availed. Ineligibility rates which stood at 16.2 percent in New York City and 9.7 percent in the rest of the State in 1974 were reduced to 10.4 percent and 3.9 percent respectively in 1975 and on the basis of preliminary figures, to 8.3 and 1.6 percent in the first half of 1977. Overpayment rates which were 30.9 percent in City and 27.1 percent upstate in 1974 dropped to 22.1 and 16.6 percent in 1976 and in the first half of 1977 to 18.5 and 15.9 percent. Underpayment rates have also declined from an average in 1974 of 15.6 percent in the State to 12.3 percent in 1976 and 10.8 percent in the first half of 1977.

Still under the rubric of "saving money" I would like to mention briefly a number of changes in federal legislations which would be helpful or more accurately are long overdue. Some are now embodied in bills under consideration by the Congress. These include -

- The substitution of a standard deduction for calculating eligibility for the food stamp program in place of the plethora of adjustments to gross income which now must be made and the elimination of the purchase price which imposes a significant hardship on the client who may find it difficult to reserve the necessary cash to buy the semi-monthly allotment. Both the Senate and House bills contain such provisions and I hope they will be adopted though I regret that the total effect of the bills are to reduce benefits to New York and other northeast states.
- The removal of the 10 percent restriction on vendor payments or dual payee checks for AFDC cases, checks which may only be cashed when signed both by the client and the landlord or the utility company as the case may be. Though the two semi-monthly checks the welfare client receives covers the cost of rent and utilities as well as food etc., it is unfortunately the case that frequently the client does not pay his rent for several months and may then move out or be evicted leaving the landlord to bear the loss. The result, all too often, is that the building becomes unprofitable and in time the owner abandons it. The consequences are costly for the welfare system as well because the client must be housed and probably into more expensive housing or the client receives a duplicate payment to cover the back rent and the

welfare department recoups this sum over a period of months by deductions from the welfare grant - a losing game.

HR 7200 provides for lifting the restriction from 10 to 20 percent and while I would prefer the lifting of the restriction altogether so that the welfare department could make use of this device whenever evidence of past mismanagement indicated it was appropriate to insure that the welfare grant was used for the purposes for which it was made, I will settle for the increase to 20 percent. It will be especially helpful in New York City.

I would also ask for a more sensible interpretation of this provision from HEW. We have a situation in New York City involving retroactive rent increases for three months to 20,000 tenants in public housing projects operated by the New York City Housing Authority. The total sum involved is $1 million. We did not want to issue 20,000 checks to each of the clients who in turn would pay the average of $50 each to the Housing Authority. We asked permission to issue one check directly to the Housing Authority without having it count as 20,000 vendor restricted payments but rather as one restricted payment. We were turned down though clearly it makes no sense from the point of view of administrative costs and potential duplicate payments if all the individual checks are not turned over to the Housing Authority.

In its efforts to provide AFDC mothers with an incentive to work, the Congress in 1967 adopted the income disregard of $30 plus a third of remaining monthly income as well as actual work expenses, taxes, and child care costs. As a result it is possible for an AFDC mother with three children to remain on welfare, albeit with a small cash grant, until her income reaches $29,000 per year, and as long as she is on welfare she remains eligible for medicaid for herself and her children.

It is at least doubtful that 30 and a third has ever been a significant incentive to work - the percentage of AFDC mothers in New York City who are employed has remained stable, at about six percent, for years, and the numbers who leave the welfare rolls because they obtained jobs has remained low - fewer than four percent. Its main effect has been to create a permanent class of welfare recipients, for it is unlikely that most of the women who come on to the AFDC program will ever command jobs which will pay salaries substantially above the average for all wage earners. Further, it creates a serious inequity between those who never were on welfare and those who were, to the great disadvantage of the former.

The Administration has submitted a proposal to the Congress to substitute a standard deduction of between 15 and 25 percent of gross income in place of itemized expenses, plus child care costs, plus 30 and one third of remaining income after the standard deduction and child care costs. This is a substantial improvement over the present system but in my view it does not go far enough. It does reduce the cut-off point for a mother with three children from a maximum of $29,000 to a maximum of about $13,800 assuming a 20 percent standard deduction and child care expenses of $200 per month. But this is still substantially above the cost of the BLS lower level budget which, in autumn 1976 prices, cost $10,041 in the United States as a whole and $10,940 in the New York, New Jersey area. I believe we

> should reduce the $30 and a third disregard sufficiently to bring the cut off to the level of the BLS lower level of living.

So much for saving money. However much we save, society will still need to spend large sums for welfare payments to those in need. But these families do not just need money, they need a variety of services to help them cope with life's problems and to help them move from a dependent to an independent financial and social status.

I should like to quote from a study I co-authored which was published in 1975 entitled, The Impact of Welfare on Family Stability. -

"What comes through loudly and clearly from this study is that family life among families at the welfare level suffer from a host of serious social problems -- drug addiction, alcoholism, physical violence, and irresponsible behavior -- and their effects leave their mark not only on the adults in the family but on the children. It is a devastating picture. The adolescents in these female-headed families are the source of a major part of the juvenile deliquency problem in the city; they are the truants from school and the school dropouts. They need help in completing school and preparing for the world of work. More than half the children in foster care come from families on public assistance unable to care for the children in their own homes. The mothers need advice on household management, care of [illegible] children, coping with their adolescent children, as well as for some of them, particularly the young unmarried mothers, counseling regarding their education and training for jobs. In this connection, it is worth noting that a recent study indicated that the major obstacle to work among employable welfare recipients was lack of education and training as the welfare client saw it and lack of skills as the employer saw it.

"That these welfare families need a variety of social services is so obvious that it ought not need saying. Yet it does need saying for at the present time there is a large void where there ought to be a vast social service program to help families deal with their manifold problems. This is not to say that there are no social services in the City. Publicly supported day care programs have been greatly expanded during the last few years, as have programs for senior citizens. Close to 29,000 children are in government subsidized foster care programs under voluntary or public agency auspices. It is indeed these three services -- day care, foster care and senior citizens' programs -- which absorb the bulk of resources allocated for social services, though some others exist on a smaller scale.

"Not only are we doing very little, we know very little about what we ought to be doing. Especially since the separation of income maintenance and services, no single social service worker in the Department of Social Services knows very much, if anything, about the family or its individual members - - its health needs, the children's problems at school, the adolescent's needs for a job or job training or his needs for acceptable ways of socializing, or the mother's needs for help in coping with her children or other aspects of her life. Of special concern is the young unmarried mother who may herself be only 18 or 19 years old, and who may not have finished high school because of the pregnancy. Yet no one reaches out to her to help her plan for the long life ahead of her, despite the fact that many unmarried mothers are on welfare at the time they become pregnant again. Further study is necessary to determine the volume and character of services needed by the AFDC families so that appropriate provisions can be made to help them reach their full potential and, it is hoped, financial independence and a better life.

"But without waiting for further study, we need to make more effective use of the substantial volume of existing resources. We cannot wait for an

AFDC mother to try to figure out what her problem is and where to go for help. The Department of Social Services and the voluntary agencies need to reach out to help the AFDC mother understand her and her family's problems and to help her solve them to the extent it is possible to do so."(1)

This description holds true today and very little reaching out has taken place in the last two years. It is in large part the effect of the separation of income maintenance and services recommended to states by the Federal government in 1971 and mandated in 1973. New York State unfortunately mandated separation in its own Social services law even before the federal government required it and while the Feds removed the mandate in 1975, it has not been possible as yet to obtain legislative action to remove the mandate at the state level. Nevertheless, we must find ways to improve service delivery to welfare families and we need technical and financial help from the federal government to do so. And I am not referring simply to increased funds for adoption, foster care, and prevention of child abuse. Though half the children in foster care in New York City come from welfare families, at any one time, no more than 2.5 percent are in foster care at any one time and probably less than 10 percent are ever in foster care. It is the other 90 percent of children and their mothers that I am concerned about. It is to this group that we must turn our attention.

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(1) Blanche Bernstein and William Meezan - Impact of Welfare on Family Stability, Center for New York City Affairs, June, 1975

Mr. Wydler. Ms. Blong is our next witness. Good morning.

STATEMENT OF ADELE BLONG, SENIOR ATTORNEY, CENTER ON SOCIAL WELFARE POLICY AND LAW

Ms. Blong. Good morning, Mr. Chairman.

I have worked to some extent on both sides of the system. I have been employed by HEW. My current employment, as it has been for the last 3 years, is as an attorney in a center which specializes in public assistance issues, representing clients on a nationwide basis.

Therefore, my perspective on the administrative problems of the system is primarily that of improving the system for the benefit of the clients and, in my view, thereby improving it for the benefit of everyone.

I would like to make one side comment on a point that Dr. Bernstein brought up about the match with the quarterly wage records. I notice that she says that there needs to be access to the quarterly records in order to have timely information.

I do not know what the system is now, but I know that—at least some years ago when I was at HEW—the way the system works is that the HEW or social security information is, in fact, obtained from the FICA reports which are sent first to Treasury.

Therefore, the processing of that information into the social security wage records is not, itself, timely. At least at that time, it was not done timely. It is not done concurrently.

The first processing of the reports is through the IRS FICA system to record the tax withholding.

Mr. Wydler. That may be the problem Mr. Cunningham was speaking of. He was discussing it as being an IRS bar. Actually we are very sensitive about tax information of any kind being disseminated publicly, however, there is a lot of difference between your income tax figures and your FICA figures.

There is a lot of confidentiality. It is hardly the same in those two matters.

Therefore, I think we could possibly overcome this problem with some sensible interpretations of current rules or maybe, if we need them, some new rules or statutes.

Ms. Blong. It may also be—and I guess that is also what I was suggesting—that the data in the form that Dr. Bernstein indicated would be needed would not actually be available on that type of a timely basis.

Primarily what I want to address today are some of the key problems that we see from the standpoint of clients in the system.

I have prepared a written statement which I have submitted to the subcommittee. If it is satisfactory, I would prefer to briefly summarize that statement.

Mr. Wydler. Please do that.

Ms. Blong. Clearly, as is testified to by this document as well as anyone's experience with the system, the immensity of the problems in the AFDC system is clear evidence that there is no easy solution to the problems within the current system.

Part of this grows simply out of the years of administration of the system itself, from 1935 to 1977; a period of 42 years which has built-in layers of confusion and administrative techniques, and in which there has been a change in the basic nature of the system and the way it is perceived.

This system started out in the 1930's with a view of the program as almost a discretionary largess to recipients in which much of the function of the administering agency was seen, at that time, as making highly subjective discretionary decisions.

Therefore, there was very little attention paid to coming up with anything that might be described as a codified, clear, concise set of instructions either from the Federal level or even from the administering agency level.

While I think most people now recognize, with the growth of the whole concept of due process in Government, that the system is one of entitlement and that the question is one of determining whether or not there is a legal right to the benefit under the system—while that has been established in legal theory—it is a lot harder to establish that within an administrative system and to overturn the accretion of those years of administration.

One of the products of this growth of the program is also one of the basic problems of administration, which is what has become known in welfare parlance, actually public benefit programs generally, as the oral tradition. This is the reliance of staff, and especially the workers who actually process the cases, primarily on memory or oral information as to what the rules are, resulting in a total lack of what one might expect assuming that there is a system and a system of rules.

I do not know to what extent any of the members of the subcommittee had a chance to see a film that was on public television done by Joseph Weisman on the New York City welfare system. Unfortunately, having been within those centers myself, I can testify that the chaos represented there is, in fact, the chaos representative of the system.

One of the facts very clearly testified to in that film is the prevalence and, in fact, complete dominance in the system of reliance on oral information and a form of sophisticated guesswork.

I think anyone who is familiar even just with the Social Security Act, without even thinking beyond the terms of the statute to the many steps that one would have to go through to translate that into administration, realizes the utter impossibility of administering a system of that complexity with that variety of requirements relying on any sort of memory system.

I have worked with the program now, as a lawyer, for well over 10 years. I do not rely on my own memory of what the statute says because each word becomes significant, and also the statute is a changing process.

The reliance on this oral tradition means also not only a failure to adhere to the rules as they appear to be written, but it is a very real barrier to the communication of any changes in policy and any developments in the system.

I was very glad to hear Dr. Bernstein refer to the retraining process in terms of the application process because that is what we have identified as one of the major keys to administrative change—retraining certainly in applications and retraining in the whole system, and basically in the attitude of workers toward the system.

This retraining must be in training staff to work in reliance on written manuals, written policy, and to proceed in cases in that way.

In order to do that successfully, that must be reinforced by actually producing clear manuals and clear staff instructions so that the staff is not, themselves, frustrated in their attempts to find an answer to a question.

I am not suggesting that, in any way, the oral tradition is necessarily the result of staff unwillingness to use any other method, but by and large the plethora of policy instructions and the way material is communicated in terms of policy changes has almost compelled workers to rely on that sort of informal system.

This is because they cannot find the answer to their question. It is not in any easy compendium that provides the answers in one simple form. It is complicated, also, by the caseloads with which they deal and the amount of time that they have available to answer a question in any given situation.

They cannot expend hours trying to do research. They must have an easy, simple method such as a handbook before them at all times in which they can find the answers to at least all of the routine questions.

Mr. DUNCAN. Excuse me.

If I am hearing you correctly, you are saying that there are no manuals or handbooks that people would use when filling out and processing applications?

Ms. BLONG. It varies across the country in terms of how systems work. Primarily in the State-administered systems, there has been more of an attempt to come up with one comprehensive document.

It is not necessarily one volume, but is an integrated document. It is somewhat similar to what social security has used for running the title II program, the claims manual, which is an integrated document.

In other systems, including New York City's until very recently, there has been nothing except a very short handbook for caseworkers which is basically just a listing of rent schedules and things like that.

By and large other policies have been disseminated through seriatim memos that come out on topics without any integrated system of filing or retention. There is nothing really that I would call, in that sort of system or many other systems, a manual in the sense of an integrated document to which a worker can turn and easily find, through an indexing system, the area about which they need information, look that up, and see what the instructions are.

Mr. DUNCAN. And this would be a responsibility of the State, HEW, or both? Since this is a kind of partnership program, who would you look to to take the lead in putting together such a document?

Ms. BLONG. I would look to HEW to take the lead in formulating some sort of model document. I think that the similarities in the program at this time are much greater than the dissimilarities.

Even simply from the standpoint of efficiency, I do not think it makes sense for States all over the country to each have their own staff sitting down, starting from scratch, and trying to develop this kind of thing.

There are, of course, many differences allowed within the present AFDC system, including different methods of budgeting so within each State's manual you would have to integrate appropriate changes.

However, I do believe a model manual could be developed, and that could be used as a basis.

Mr. DUNCAN. Thank you.

Ms. Blong. You get a further complication in States such as New York which is State-supervised and locally administered. There you build on another layer of instruction writing which is another factor of what we see as a basic administrative problem in the system.

I know that certainly New York City is very interested in moving—I don't know if they would consider it as toward a State-administered program—but at least toward removal of the local match in the program. We consider a major and necessary administrative change in the program to be the abolition of the multilayering of instruction materials.

Whether New York City or any other local agency continued to be an administering agency in the sense of a program operating agency is, in our minds, a very different question from whether or not there should be a comprehensive State instructional manual setting out the policies for the entire State, developed in one place, and having that be the document on which all States' staffs rely.

We consider that to be part of the problem in the degree of difference between Federal requirements, State requirements, and all the rest down to the line of actual administration. This grows out of this constant interpreting, over and over again, of the first basic step.

I think the immensity of the problem also points to the fact that if one wants to improve the administrative structure within the current system—staying within the framework of the current system—there has to be a focus on what is seen as key points, and then addressing those points.

There is probably no way, short of actually just changing the whole system and starting from scratch, to hope to eradicate even all the easily perceived systemic problems because of the type of work that is required.

Obviously, it is hard slogging work to sit down and begin to rewrite processes and flows in a system, to rewrite manuals, and to make those steps go forward.

In our written statement, we have concentrated on what we see as three of what we would suggest should be the key focuses for improved administration within the system. The first goes to the application process which Dr. Bernstein also referred to.

This deals with the basic problem of the entry into the system and also, in many ways, is where many of the problems begin that will later permeate that case, that family, and their history on welfare because of the problems that crop up in the application system itself.

I would agree with Dr. Bernstein's statement that what they had found, in their review of the application system, was that much of what went on was just so much paper, but that so much paper, unfortunately, cuts another way. The requirement for so much paper makes it impossible for a client who cannot produce all that paper to establish their eligibility if, in fact, they are eligible.

It is clear, obviously, that the system has to be reviewed to determine the necessity for that paper, but not simply the necessity from the standpoint of system controls to keep out ineligibles, but system controls to make sure that eligible people are, in fact, able to establish their eligibility.

I think that most of us, even in our experience in our own personal lives, realize that recordkeeping as a personal matter is not usually a person's strong point. I think anyone who has experienced a personal IRS audit realizes that when the time comes and you have to find all those canceled checks and so forth it takes a lot of poring through a lot of drawers.

This is obviously a general human problem. It is a much stronger problem for the poor because of the nature of their lives. The life of a person in poverty is not the type of life that encourages one to set up all sorts of systematic recordkeeping and retention of various materials. There are many sudden moves in which papers are left behind because only the essential things are taken.

In many cases, there is a lack of a clear understanding on the part of people of where they were actually born because, in the exigencies of living from day to day, their family did not consider that to be the most important factor to tell them.

I think that the review of the applications process has to examine that process to determine what is, in fact, necessary to have a reliable determination of eligibility, but—without going beyond that—not to build up impossible hurdles.

In that connection, I would like to say something briefly about the declaration system which I know is a system that is looked upon with much disfavor.

I do not believe, actually, in the analysis of how the declaration system was designed to work—whether it worked that way in practice—that it was ever thought that individuals would simply receive benefits because they came in and applied for them.

It was thought that an attempt was made to design forms which would elicit sufficient information to make the determination as to whether or not the individual was, in fact, eligible, and which would also have information within the form by which one could tell, in fact, whether the information hung together in such a way that it was cohesive, or whether it was necessary to further verify that information.

It was also felt that there would be reviews on a sampling basis, and that there would be sample audits of forms.

We still believe that this is a workable—and, in fact, the best—overall system for the applications process in terms even of administrative efficiency and cost savings. It is, in fact, the system that is used in the IRS program. We submit our forms based on our own declarations with certain documentations.

Those forms are reviewed for mathematical accuracy. They are reviewed on a sampling basis for audit.

It is basically the system that is used in a program such as the title II benefits program where applications for social security benefits are received largely on the basis of information from the clients—for example, for survivors' benefits and children's benefits where the issue is relationship to the wage earner and some documentation is received to determine the relationship to the wage earner.

There is not, generally, extensive verification of those forms. Verification takes place——

Mr. **Wydler.** I would point out to you, of course, a slight difference between the IRS procedure and the welfare procedure.

Probably all of us in this room filed the IRS procedures, but we are filing that for the great privilege of paying money to the Government, whereas, of course, the welfare form is filed to get money from the Government.

There is a whole different purpose in what we are doing in one case and the other. I would like to point that out to you. When we file an IRS form, it is not a privilege we are asking from the Government. We are giving them something along with the form. We are giving them part of our income.

I think that makes it quite a different kind of procedure from the public point of view.

Ms. BLONG. I would imagine that that sort of relates to how you see the IRS form.

Mr. WYDLER. How do you see it?

Ms. BLONG. It might be best if most citizens did see it as a form being filed for the privilege of paying their taxes.

However, I think many people, in filing the form, exercise great care to see to what extent they can reduce their tax liabilities. It is true that there is a tax liability and that that is the system for paying it, but it is also seen by some that some of the grounds for exemptions and various other types of methods of reducing tax are, in fact, a form of public benefit in making a determination amongst taxpayers as a whole as to which taxpayers should pay a higher proportionate share of the tax than others.

While it is true that—I was about to say everyone—hopefully everyone with income pays a certain tax, I think there are some general similarities in the overall effect of the system.

I think also that the importance and the degree of care that is shown in properly protecting the public fisc, and yet the willingness to rely on that system indicates also some judgments as to the reliability of humans in providing correct information and also as to the availability of methods by which forms that need further verification can be screened out.

Mr. WYDLER. I am trying to explain to you that the concept is entirely different. In one case, the Government is coming to me and saying, "I want something from you." In the other case, the person is going to the Government and saying, "I want something from you."

The nature of the transaction is quite different. Therefore, I am saying that the way you get the information on which you are going to base the judgment might be totally different as well.

Mr. FOUNTAIN [presiding]. Of course, they are both subject to fraud and abuse.

Mr. WYDLER. Of course. They are both subject to audit, but I am just saying that it seems to me that the very nature of the transaction is quite different. In one you are talking about people filing their income tax forms where they are required by their Government to do that for the purpose of paying something to the Government, and in the other case you are talking about the person coming and saying, "I want you to pay me something."

I would think that there are very few cases—at least that I know of—where you go to the Government to get money without a lot of forms being filled out, and a lot of verification and documentation being presented. That is the normal situation when you get something from the Government.

You usually have to go through a heck of a lot of redtape to get it, not only in welfare but in anything else.

Mr. FOUNTAIN. Please continue, Ms. Blong.

Ms. BLONG. I would agree that there are obviously differences. However, I think that, perhaps, my view of the differences is that they are not as extreme as you seem to feel they are.

For example, in the question of medical deductions or charitable contributions, one does not normally have to submit extended verification of those materials. Yet one could argue, I guess, that there should be an extended verification of each one of those items to the extent that my personal tax liability and whether or not I might receive a refund could depend upon the truth of those statements.

Another area on which we have focused in our written statement is the need for better case control, both from the standpoint, again, of ineligibilty and eligibility.

Recipients, like the general taxpayers, are not benefited by payments to ineligibles even if some of those payments are, at some times, overpayments of minimal amounts to families who are, in fact, eligible.

The very fact of high ineligibility rates creates a public image of the program's unreliability and leads to a public hostility to the program which, in fact, redounds to the detriment of all recipients.

However, there is also the pressing need for better case control to better preserve and respond to eligibility.

As noted in our statements, the problems that cause overpayments in terms of the unavailability of a system to properly receive and process reports of changes in circumstances and to respond to those changes cuts both ways.

We have some serious questions as to the need for a monthly reporting requirement for all cases. I stress here that when I say "reporting" I am talking about just that, monthly reporting requirements. That term is sometimes also used to subsume a change in the basic nature of the budgeting system, to move from current needs to retrospective budgeting. I am not referring to that at this point.

I am talking about the process of improving the way in which the system receives reports of changes in circumstances, and then processes those changes to promptly adjust the grants to eligible individuals either downward—if there has been a decrease in need—or upward—if there has been an increase in need, as there has been in many cases.

Finally, we believe that there is a need for a system, such as the quality control system, so that there is an ongoing constant program of searching out and identifying the causes of error in the system and then instituting means for corrective action of those errors.

Actually, there is no way—we would submit—in which any system can be designed to be perfectly error free in its design. Therefore, in whatever reform is built into the system one has to have a concomitant system to continue to monitor that reform and to search for correction of errors.

Again, we would stress the need for balance in this area—that the errors looked for have to be both the overpayments and the underpayments.

As noted in our statement, unfortunately we have recently gone through a period of time in which—because of actions by HEW—the quality control system has focused only on overpayments and on underpayments to ongoing cases. It has not reviewed denials or terminations of aid.

We would expect that to be changed soon through regulations which we understand HEW will be publishing shortly in final form. That in itself, though—in terms of HEW's or any Federal or local agency's attitude toward administration of the system—is somewhat distressing because that change in regulations comes about mainly in response to litigation which was necessary in order to compel the agency to extend the quality control system or to reextend the quality control system to the coverage of denials or terminations of aid.

I believe that the very fact that the agency dropped those cases out of the system and then could only be brought to reintegrate them through litigation is indicative of what might be called a major attitudinal issue with respect to system performance and improvement—that, in searching for means to improve the system, one has to keep in mind what the basic purpose is.

It is to provide aid to people in poverty—which, by its very nature, is a real pressing current need. Therefore, the means used to do that have to be balanced to assure that ineligibles are removed, that overpayments are removed, but that they are not removed at the cost of denying payments to eligible individuals because that is, in effect, not reforming the system. It is simply giving up on the system.

Mr. FOUNTAIN. Thank you, Ms. Blong.

Mr. WYDLER. Unfortunately, Mr. Chairman, I am going to have to leave because of the meeting of the ad hoc energy committee.

Could I ask a few questions now?

Mr. FOUNTAIN. Certainly.

Mr. WYDLER. Thank you, Mr. Chairman.

Your view is that we go back to this declaration system. We just had testimony from Dr. Bernstein about what the situation was under that system in New York City. That is a tough test, of course, but they are doing much better without it.

How would you answer that?

Ms. BLONG. I do not know that they are doing much better without it, and it pains me to say this because I am a native New Yorker and I have lived most of my life in New York City.

Unfortunately, I could not recommend looking to the New York City welfare system as an example of how anything can properly be done in a welfare system. My personal experience there has been one of utter chaos.

However, it may be that the system just grew so large before attention was paid to these matters that it is extremely difficult to take hold of it. I do not know what the problems are, but New York City—as I mentioned before—is one of the examples of a system that has tried to limp along without even having something so basic as a manual for the staff to instruct them in ways to proceed.

Mr. WYDLER. Apparently, however, the cold statistics indicate that the system is less bad now than it used to be. That is what we are dealing with in that statement.

Ms. BLONG. I do not think we will know the full answer to that question until we examine error rates in denials and terminations in New York City.

The application retraining that Dr. Bernstein referred to was, in part, a response to Federal litigation in which my office participated. This resulted from claims brought against the application process because of ways in which that process was denying aid to eligible individuals.

The information which we developed in that suit did convince us, and convince the court to some degree, that this was, in fact, true and that a major restructuring of the system had to be undertaken in order to improve that system.

Obviously, as lawyers representing particular clients, we are not in a position to do a whole statistical analysis of the system, but there certainly was much evidence that many people—properly eligible—were being initially denied aid, and that many recipients who were in need of grant changes because of changes in their circumstances were unable to penetrate the system to obtain those changes.

I do not think that simply looking to a reduction in overpayment rates is clear evidence that the system is running better.

Mr. **Wydler.** Dr. Bernstein, did you have a comment on that point?

Dr. **Bernstein.** If I may, please.

This I can say dogmatically. Our efforts in improving the application procedure in New York City did not stem out of this legal case. They stemmed, basically, out of my head.

Frankly, I am a little puzzled as to which case Ms. Blong is referring. I do know that we are involved in a lot of litigation.

I would point out that I think we do have to pay some attention to the figures that come out of the Federal quality control studies. These do show a reduction in the ineligibility rates from 18 percent, in 1973, to what I hope is about 8.3 percent now. They show a reduction in the overpayment rate from well over 30 percent in 1973 to something below 20 percent now—about 16 percent. They also show a reduction in the underpayment rate.

We have no evidence to indicate that any significant proportion of the denials have been unfair denials. Further, there is a fair hearing process so that anyone who is denied assistance or whose case is closed has the opportunity for a fair hearing.

In New York State, we have the honor of having more fair hearings for recipients than any other State in the country. If I recall, the decisions are about 50/50—half in the State's favor, half in the client's favor.

I just do not think there is any evidence of a high rate of unfair denials. Quite the contrary.

Mr. **Wydler.** Ms. Blong, I tend to agree totally with the one point you made—that we could have such a rigid system that a person would be required to produce some document which he did not have and could not get.

I think common experience tells us that everybody has that problem; however, I just cannot believe that it is that rigid.

Is there not a way, when a person says "I do not have the birth certificate, and that is all there is to that," that they can be verified in some other fashion? Can they not put an investigator or worker on the case to get the information in some other fashion?

There must be a device like that. Is it that if you do not have it, you do not get it, period? That is hard to believe.

Ms. **Blong.** Theoretically, if one looks to the rules in some States, there is a device. In practice, it has been our experience that it is very rarely done.

Again, this may not be a result of bad motives on the part of the workers. It may simply be their understanding of what they have to do based on the material that is provided to them that they must obtain this documentation.

They are not, for example, by and large even given advice as to how they could go about helping an individual to obtain the documentation if it is not readily available to them.

Some of these types of improvements, I think, could be built into the system, assuming States were willing to do so, simply by looking to some of the processes that social security has used in the title II system.

While that system is still far from perfect, they have attempted to develop some means for steps like that—finding alternative resources, carrying comprehensive listings where various documents were available, and moving into those steps.

Mr. **Wydler.** Dr. Bernstein, what would happen if some woman applies for welfare, and they say "Give us your birth certificate, and your children's" and she says, "I do not have them."

How do you handle that?

Dr. **Bernstein.** There are a variety of substitutes——

Mr. **Wydler.** Is there a method by which a worker can go on the case to go down and look at her children or something? There must be a way to do that. If they are there, they are there.

Dr. **Bernstein.** There are a variety of substitutes for the birth certificate.

Mr. **Wydler.** That is just one case. I am just postulating where somebody does not have the right documentation—where you have a worker that has to verify the things themselves.

Dr. **Bernstein.** I do not want to say that there is never an instance in which somebody is denied. I am sure there are those.

However, if you look at the information that is given to the client when she comes in and says that she wants to file an application, there are a lot of alternatives given for different kinds of documentation.

If she does not have a birth certificate, there can be—in some cases—a baptismal certificate. If there is any kind of document of entry into the country, that would be accepted as a substitute—a passport or entry visa.

There are a variety of methods for establishing that you were, indeed, born someplace, that the children were born someplace, and that you are now living at a certain place.

It is not that it is uncomplicated. I do want to say one thing in response to what Ms. Blong has said. We do have a very complicated system. We do have the Federal law and regulation, State law and regulation, and these are interpreted in New York State at the local level.

It is not that there are no written instructions. There are written instructions.

There is a problem of writing instructions in simple English. It is a problem to which I have devoted a great deal of my time in the last year. I have set up a rule that I have to understand every administrative letter that I sign. I make believe that I am an income maintenance specialist out in Rochester, and I have to understand it before I sign it.

It is a complicated system. It can be made less complicated—and I think we have to work through this whole thing and see where we can make it less complicated—but it is never going to be simple.

It is never simple when you have to decide whether someone is eligible for welfare. I think we just have to do the best job which is possible, and do this under the clearest set of laws and regulations which are possible.

Mr. **Wydler.** Thank you, Mr. Chairman.

Mr. **Fountain.** Before calling on Dr. Nathan, I would say that we will have to move along because of an extremely important bill on the floor of the House that we will soon be getting into. We will have to vote on two conference reports.

Ms. Blong, would you tell us something, very briefly, about the background of your center and how it is supported?

Ms. **Blong.** Our primary source of funding is from the Legal Services Corporation. We receive a grant to represent Legal Services' clients in public assistance matters, which we do both directly and in coordination with Legal Services' programs around the country.

We work with those programs in a variety of ways, which is why we have nationwide experience with the system.

At times, we work with them in the actual full representation of the client. At other times, our assistance consists of providing them with general advice on how to proceed in the matter.

We also do direct representation ourselves.

In addition to the corporation funding, we also have some private funding.

Mr. **Fountain.** Do you do legal work other than cases related to welfare problems?

Ms. **Blong.** No; we are a specialized office. We work solely on public assistance programs—cash public assistance programs. These include AFDC, SSI, the general assistance programs to the minimal amount that they exist, and we also do some work in medicaid which is mainly related to the individual eligibility rather than the health care issues.

Mr. **Fountain.** Dr. Bernstein, do welfare agencies in New York determine whether AFDC applicants are aliens? If so, do they determine whether they are legally in this country?

I ask this question because of the alleged very large illegal alien population in the State of New York and particularly in New York City.

Dr. **Bernstein.** We do check on the registration statement. The laws of New York, as well as the Federal laws, do not permit us to give assistance to illegal aliens.

Here is a problem in documentation. Someone may come along and say, "I am a legal alien, but I do not have my papers." There is a case where there is a good deal of pressure put on the client to bring the papers in, or to get them from the Immigration and Naturalization Service, to prove his legal status.

If he cannot prove it and the local district has reason to believe that he is, therefore, an illegal alien, he is referred to INS.

Indeed, recently we established an even stricter law in New York. Until April 5, we had permitted 30 days of assistance to an illegal alien. This was at the cost, solely, of the State and the locality.

That was eliminated in legislation adopted April 5 of this year.

Mr. FOUNTAIN. Thank you.

Ms. Blong, we will include your entire statement in the record, without objection.

[Ms. Blong's prepared statement follows:]

PREPARED STATEMENT OF ADELE BLONG, SENIOR ATTORNEY, CENTER ON SOCIAL WELFARE POLICY AND LAW

The Center on Social Welfare Policy and Law provides legal assistance to applicants for and recipients of public assistance around the country to aid them to obtain the benefits to which they are statutorily and constitutionally entitled and program changes necessary to more fully meet their needs. It has been engaged in such work since 1965. As representatives of public assistance clients we are intimately aware of the failures of the AFDC program and we are hopeful that the increased recognition of these problems which is manifested by actions such as the efforts of this subcommittee will lead to a more humane and adequate program better geared to the elimination of poverty and the fulfillment of the American promise of opportunity for all.

The report prepared for this Committee on "Administration of the AFDC Program" demonstrates the almost overwhelming magnitude of the number and scope of issues in the AFDC program and the impossibility of addressing all of these issues without undertaking to prepare a similar compendium. Accordingly, we are unable to address more than a few key points at this time but we would hope that these hearings are only a beginning of the subcommittee's dialogue with the public on these matters and that there will be continued opportunities to discuss all of the issues as the subcommittee proceeds with its efforts in these areas. Indeed each one of the major categories of issues identified by the subcommittee staff and the Library of Congress report is a subject well worthy of hearings on its own.

Certainly there is one question on which all those involved with the AFDC program including poor families and their representatives agree and that is that the AFDC program is grossly mismanaged and that there is an urgent need to restore some order and rationality to the administration of the program. Indeed poor people have the biggest stake in improved administration of the program since it is they who suffer most directly from the administrative chaos that prevents timely determinations of eligibility, correct and timely issuances of payments, timely and proper adjustments to reflect changes in circumstances and prompt correction of erroneous action not to mention minimizing the occurrence of such errors in the first place.

Indeed many of our efforts on behalf of our clients in the past few years have been directed to trying to obtain improvements in administrative processes so that eligible families could gain access to the AFDC benefits to which they are entitled. One example of that effort can be found in the attached copy of our letter to Secretary Califano of February 2nd highlighting a number of administrative problems and recommending solutions to these problems. As the members of the subcommittee will note, that letter addresses many of the issues which have been identified as the subject of these hearings. (As noted in the letter, we have also prepared a more detailed analysis of these issues which we would be glad to furnish to the subcommittee if it wished it.)

While the issues set forth in the letter provide a catalogue of major administrative issues, the Secretary's response to that letter may be the best evidence of the causes of the persistent problems in the administrative process. To this date, we have received no response other than an acknowledgment of receipt of the letter. It would appear that either no one is minding the store or that no one thinks the letter serious enough to merit a response. Whatever the cause, the lack of response raises serious question as to the capacity of the Department of Health, Education and Welfare to manage the AFDC program and/or its commitment to dealing with the hard issues and/or its commitment to responding to valid questions raised by the public. Clearly there can be little hope of improved administration if the agency is unwilling or unable to face the issues or tries to resolve these issues without any consideration of other views on them.

The issues raised in our February 2nd letter also point to another one of the fundamental causes of confused and chaotic administration, namely, the inability of the responsible federal agencies to abide by the rule of law in governing their own actions. We are aware that many critics of the system claim that confusion and administrative problems are due to the fact that federal regulations are too numerous and too complex. However, we believe that the regulations are no more numerous than what is legitimately required for the agency to carry out the federal mandates contained in the federal statutes and to perform its supervisory responsibilities. In our view the problem is not too many or too complex rules but too little adherence to the rules which are established. HEW repeatedly ignores its own regulations when those regulations are inconvenient and makes decisions on an ad hoc basis without any semblance of legality or order.

Moreover there is substantial evidence that these actions are not taken out of ignorance but rather result from a deliberate refusal by agency officials to be bound by the agency's own duly promulgated rules and requirements and a decision to tailor all decisions to the political exigencies of the moment or even just the personal bias (if not whim) of the decisionmaker. Examples of this problem within the current HEW administration can be found in the agency's current inaction with respect to state work relief programs and state adoption of prior month budgeting systems. As outlined in the attached copy of our February 2nd letter to Secretary Califano both of these practices are barred by current rules. However, no definitive action has been taken in either of these areas.

The failure to abide by the established rules and policies creates a climate of total confusion as to what the "real" rules are which affects departmental staff, state and local agencies responsible for administering the program, and the program beneficiaries. Each question or problem plunges one trying to find an answer into an evershifting quicksand in which yesterday's answer may be contradicted by today's events. Departmental staff who are supposedly charged with responsibility for advising states as to the meaning and effect of federal requirements and monitoring state compliance with these requests do not know whether established rules and requirements are in fact the rules to be followed and are often reluctant to act for fear of being out-of-step with some undisclosed change in position. Even more importantly, however, they are encouraged to believe that there is no guiding system of law or rules and that it is senseless to try to resolve issues by application of these rules. At best, State administrators are sometimes misled into proceeding in ways that deny federal rights because of their inability to obtain a clearcut decision from departmental staff and, at worst, they are encouraged to simply ignore federal requirements with or without pressing the federal agency to legitimate their actions.

Clearly there can be no hope of bringing order and rationality into adminsitration of AFDC so long as the ultimate program authorities proceed in a lawless and arbitrary manner and do not abide by the rules as established unless and until those rules are changed in accordance with the prescribed procedures for such changes.

Of course, resolution of these problems will not suffice to cure all the deficiencies of management and organization in the AFDC program and the sum total of these deficiencies is the major problem of the AFDC program, its non-responsiveness to the needs of the families whom it is supposed to serve. The system does not provide enough aid soon enough and relibbly enough to even begin to achieve its goal of eliminating poverty by making it possible for families to attain an adequate standard of living. These problems manifest themselves at a family's first contact point with the system -- the applications process.

For the family in need and without any assistance, the applications process is the most critical aspect of welfare administration. Unfortunately, this process, as we confirmed through a national survey last year, is a series of horrors -- welfare offices are often remote; persons are turned away without a future appointment because the office is full; applicants are "pre-screened" by untrained staff and turned away without being allowed to apply, although they are eligible for benefits; application forms are overly long and complicated, and particularly difficult for persons for whom English is a second language; interviews and processing are delayed; and verification requirements are burdensome and excessive.

It was in light of all of these problems that the Assistance Payments Administration of HEW decided last year that improvement of the applications process was its number one priority in the AFDC program during 1977. This Center thereupon provided APA with an exhaustive analysis of the applications process, setting forth in detail the nature of the problems based upon our experience and confirmed by our national survey, and making precise recommendations for agency action to address these problems. (A copy of that memorandum has been separately provided to the subcommittee.) Although this memorandum was the basis for a half-day meeting with high ranking officials of the Assistance Payments Administration and the Social and Rehabilitation Service, only the most perfunctory action has been taken to date, none of it to any effect in the outside world.

It is therefore crucial that this Subcommittee ask HEW to account for its failure to take effective action with respect to its number one priority, the applications process.

Similar problems infect the determination of financial eligibility and the amount of payment due. Families who are subsisting at already inadequate incomes are forced to wait months for grant increases warranted by changes in circumstances which increase their needs. Much could be done to relieve this problem by improving the state systems for receiving and processing reports of changes in circumstances. Few, if any, states have established regular procedures for receiving reports of changes and for processing them. For example, many states provide little, if any, explanation of the clients' reporting obligations, and most provide no forms or established procedures for the client to use in reporting changes in information. Accordingly even if a client tries to report, she/he is often unable to do so, and many workers have no idea of what to do if a report is received. Moreover, once the agency does officially receive a report, there is generally no agency timetable for processing the information and changing the grant.

Although there is clearly need for improved state systems in this area, there has been no concentration on this issue at the federal level except as an incident to a plan to make the system even more non-responsive to current needs, i.e., the adoption of retrospective budgeting in which current eligibility and the amount of payment, if any, would be based solely on income and resources available to the family in a prior period. Ironically, HEW characterizes this procedure as more responsive, more accurate, easier to administer. However, it reaches these conclusions only by assuming that the appropriate test for providing income maintenance to a family whose income and resources are currently far below the poverty standard is to look to the family's past circumstances to determine whether their income in past months was below the eligibility standard and that the family's current needs are irrelevant. The simple but crucial question which arises under this system is what is the family to do now when it does not have sufficient income and resources to even maintain minimal subsistence.

Advancement of retrospective budgeting in the name of administrative improvement is a simple case of changing the program to fit an administrative scheme, rather than designing administrative processes which can improve program management consistently with the program purpose. Thus, the choice of a current accounting system or current needs budgeting as opposed to a retrospective system is not just a choice between two alternative methods of reaching the same end. It is a choice between two radically different programs.

As Congress has long recognized, only a current needs system can provide aid to those in need at the time they need it without requiring them to sink even deeper into the depths of poverty before qualifying for aid and it has for this reason mandated the use of such system in both AFDC and SSI.* Retrospective budgeting would allow a family whose income never even rose to adequate levels to be denied aid in months when they were without even that inadequate income, and would thus compel families to sink deeper and deeper into poverty. To tell a family currently without income and resources that they must wait for aid because they had income equal to the minimal needs standards two months ago is to tell the family that there is no aid for them at all. (Indeed the next step will no doubt be "Catch 22" -- if the family somehow survives through the month this will give rise to a presumption that they must have received some income from somewhere and that assumed income will then make them ineligible for payment at the end of the month.)

Such retrospective systems of computing benefits by prior income may be appropriate in a system where everyone has continuing income or resources equal to or above levels of adequacy and the process is one of determining after-the-fact liabilities or credits such as the application of the income tax to middle and higher income taxpayers, but it has no place in an income maintenance program such as AFDC where a family must have income and resources far below any level of decency and adequacy to be even potentially eligible for aid. Current needs budgeting is a necessary response to the provision of grossly inadequate income supports which at best barely alleviate the hunger and deprivation of poverty even when the payment meets "actual need" i.e., the difference between the family's actual total income for the month and the payment standard. In such a system, the slight "overages" which a family may receive as the result of unanticipated income do no more than offset some of the inadequacies of the basic support level. Even more importantly, the loss entailed by developing a retrospective process which systematically makes payments of less than "actual need" far outweighs any program costs attributable to uncounted income.

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* Although the length of the accounting period in SSI is a calendar quarter as opposed to one month, the system is still one of looking to current needs during that period. Eligibility and payment for SSI for a quarter is based on the income and resources which the individual is expected to have available during that quarter.

There is clearly need, as noted above, to improve administrative processes so that changes in circumstances which call for either decreases or increases in benefits can be more swiftly processed and reflected in the payment. However, this does not justify abandoning the principle that there must be a response to needs at the time they exist. Only a program which provides that response can even begin to impact on poverty and especially to insure that those who live at the borderlines of poverty despite their increasing efforts to improve their family's lot are not forced into total poverty by the absence of aid to fill in the gaps when they are temporarily unable to maintain their incomes.

It should also be noted that the available evidence suggests that the vast bulk of overpayments which result from unreflected changes in circumstances are the product of many months of failure to account for such changes not just a month's delay. While hard data on this point is not readily available because the length of the delay is not measured by HEW's Quality

Control program, it is our understanding that such data is available and could be collected. Surely such steps should be taken as an initial step to determining whether improved reporting of changes in circumstances would be sufficient to reduce differences between actual needs and payments to a de minimis level.

Further help to remedy defects in the administration of AFDC should also be forthcoming through the Quality Control program. Thus, while much of the support for a rigorous Quality Control program with specific federal requirements for the systematic reduction of state error rates will most likely come from those concerned primarily with the enormous cost of the AFDC program and with the impact of waste from the taxpayer's perspective, the individuals and families who depend on the AFDC program for assistance grants to meet their subsistence needs have an equal interest in efficient and non-wasteful administration. This is so for two obvious reasons.

First, inefficiency and improper expenditures necessarily reduce the amount of funds available to provide adequate assistance to those who are desperately in need. The reduction or elimination of improper expenditures will permit assistance to be paid to those truly needy and may even permit the states to take steps to increase presently inadequate grant levels so that eligible needy families will be provided with the income necessary to obtain decent food, clothing, and shelter. The second reason, which is of utmost significance to poor people, is that inefficient, incompetent and careless administration not only causes improper payments to be made to ineligible families, but such lax administration frequently results in individuals and families eligible for AFDC assistance being denied such aid despite being entitled to it under state and federal law. It is hard to imagine a greater tragedy than the improper denial of cash assistance to the nation's needy families.

The deficiencies of the current system present overwhelming evidence of the need for an ongoing system of program monitoring to identify system weaknesses and to develop and implement plans for correction of such weaknesses and it seems clear that only a Quality Control program addressed to analysis of specific case actions can provide the reliable information necessary to identify the real causes of problems and to determine whether proposed corrective actions have achieved their purpose. However, to be effective, a Quality Control program must be balanced, that is it must be as concerned with errors which result in the denial of assistance to eligible families as it is with errors that result in overpayments or payments to ineligibles. Thus, we support a balanced Quality Control program which 1) uses periodic, statistically valid sampling to identify errors which causes both incorrect payments and denials of assistance; 2) contains a program of vigorous corrective action to eliminate weaknesses and 3) is enforced in a consistent and non-punitive manner, that is a program which assists the states in corrective action efforts rather than relies merely on threats of financial penalties for their errors.

Although the Quality Control program mandated by HEW had in fact taken this balanced form for many years, the current program does not function as a neutral management tool whose purpose is to root out and correct systems weaknesses. This undermining of the Quality Control program was achieved in 1973 by the simultaneous imposition of a fiscal sanction policy for overpayments and elimination of negative case action reviews, that is, reviews of denials and terminations of aid.

By coupling the fiscal sanction for excessive payment errors with the elimination of negative case actions, HEW placed none too subtle pressures on the states to curb their rolls without respect to actual eligibility. The rate of incorrect denials could be hidden from public view because the Quality Control system did not identify incorrect denials, while aid paid in good faith in a "close case" to a family subsequently proved to be ineligible would not be reimbursed. Obviously, the states were thereby pressured to deny "close cases", rather than to run the risk of excessive incorrect payments and a fiscal penalty.

The abuse of the Quality Control System achieved by the elimination of negative case actions and the fiscal sanction policy continued until 1976, when two events occurred which may contribute to a restoration of the integrity of the Quality Control system as a management tool for improving the overall administration of AFDC. First, as a direct result of a federal lawsuit brought by welfare rights organizations to challenge the elimination of negative case action reviews from QC (WROAC v. Mathews, No. 75-2108, D.D.C., filed December 17, 1975) as well as concerns expressed by Rep. Rangel during May 3, 1976 hearings before the House Ways and Means Committee, Oversight Subcommittee, HEW published proposed regulations to restore negative case action reviews to Quality Control. See 41 Fed. Reg. 55727 (Dec. 22, 1976). Final regulations effectuating such restoration are expected to be published shortly.

Second, a federal district court invalidated HEW's fiscal sanction regulations. Although the court upheld HEW's authority to deny federal matching funds for improper payments, it held that the regulations imposing fiscal sanctions when a state's payment errors exceeded established error rates, or tolerance levels, was arbitrary and capricious. State of Maryland v. Mathews. 415 F. Supp. 1206 (D. Md. 1976). The court's decision has re-opened the issue of the proper role, if any, of fiscal sanctions in the AFDC program.

We submit that there can be no question as to the need for restoring balance to the Quality Control system by reinstating negative case action reviews. HEW's present plans to measure negative action errors agree with the advice of a statistical expert who had previously warned HEW of the bias that would be introduced into the system by the elimination of negative action reviews. See HEW State Letter No. 1079 (SRS-APA-PE), March 19, 1970 at 6, 9-10.

In addition, there is good reason to believe that incorrect denials and terminations are a serious problem in the AFDC program which must be tackled immediately through corrective action. While obviously no current data exists on the magnitude of negative action errors, in 1972, the last year in which HEW required the states to conduct negative action reviews, most of the states exceeded the 3% tolerance level established for AFDC negative actions. In the reporting period covering January-June, 1972, 40 jurisdictions exceeded the 3% tolerance level for negative case actions, and in the July-December, 1972 reporting period, 46 states exceeded that 3% tolerance level. In both reporting periods in 1972, 19 jurisdictions had a negative case action error rate of greater than 10%, 11 had an error rate in excess of 15%, and one state had an error rate of approximately 40%. During this period, the national error rate for negative case actions was almost 9%, and 31 jurisdictions made more errors in connection with denials or terminations of AFDC than they did in the case of favorable determination of eligibility. See AFDC QC reports submitted by states for January-June 1972 and July-December 1972, Form SRS-APA- 341.1 (Revised May 1971); Memorandum from Assoc. Administrator for Management to Don Wortman, Acting Administrator, SRS, "Negative Case Action Reviews in AFDC" May 12, 1976 at 2.

We hope that the decision to restore negative case action reviews signals a renewed commitment to an even-handed Quality Control effort and that HEW will continue to evaluate and refine its Quality Control system so that errors will be accurately identified and corrective action vigorously pursued.

As to fiscal sanctions, we have substantial doubts that they have a proper role in a Quality Control program. We think that use of fiscal sanctions as a device to obtain improved administration may be inherently contradictory. For one thing, such a policy may actually discourage the states from actively seeking out and accurately reporting errors, a necessary first step to correcting program deficiencies. In addition, a financial penalty which reduces the federal payment to states could result in reductions in aid to eligible families, the very families harmed by state inefficiencies in the first place. Since each state has the discretion to set its own payment level, a state burdened by a large fiscal sanction could simply shift that burden to AFDC families by reducing the AFDC payment level. Such a result would obviously remove an incentive to corrective action and instead penalize those needy families whom the system is supposed to serve. Moreover, even a lesser financial penalty could thwart corrective action by denying states the funds that would allow them to take steps to improve their program administration.

Obviously there may be times when a fiscal penalty is the only available and effective remedy. However we think that in this case it might be best to at least explore the effectiveness of other positive means to achieve improved administration before imposing fiscal sanctions. At the very least, fiscal sanctions should not be relied on as the only remedy. HEW should affirmatively support the states' corrective action efforts and should assist the states in formulating fair and workable corrective action plans. It should provide technical assistance to the states to help them develop policies and procedures which would reduce errors. For example, HEW could assist the states in writing clearer regulations and instructions; in developing forms; in instructing agency workers; and in developing prompt processing systems. Moreover, any consideration of fiscal sanctions must give consideration to the treatment of erroneous underpayments or denials of aid. Fiscal sanctions which look solely to the state's overpayments are certain to bias the adjudication of cases in favor of denial or underpayment.

As we noted at the outset, we regret that time did not allow us to make a more comprehensive presentation. However, we are encouraged by the subcommittee's willingness to embark on this arduous task and are ready to provide any further assistance that we can in your efforts.

In sum, as representatives of poor people, we are deeply aware of the critical need for improved efficiency and management in AFDC. However those who are dependent on the program either currently or as their only insurance against a future loss of income are also most mindful of the need to not throw the baby out with the bath water. It is imperative that simplification, ease of administration, and such, not be viewed as goals in themselves but only as means to an end. Thus it is certainly true in any system or program that one cannot realistically evaluate the merits of administrative changes in a vacuum. Changes for the sake of administrative improvement must be examined in relationship to the purposes of the program in which they will be utilized to ensure that they enhance or at least do not detract from the achievement of the program purpose.

The need for such careful evaluation and assessment is even greater in AFDC because of the magnitude of the damage that results from any administrative change which runs counter to the program purpose or is otherwise ill - thought out or ill-conceived. When one considers the fact that AFDC eligibles are by definition families with income far below adequacy and that the AFDC benefit levels are themselves grossly inadequate to meet even minimal subsistence needs, it is clear that there is no margin for error in establishing administrative mechanisms. It is also clear that one can never lose sight of the stark facts of poverty in considering the wisdom of programmatic changes. The inadequacy of the aid provided to the poor should not be tolerated in the first instance. Certainly it must not be made worse by so-called system improvements. Means must be found and can be found to improve administrative efficiency without further reducing or withholding aid.

CENTER ON SOCIAL WELFARE POLICY & LAW

95 MADISON AVENUE
NEW YORK, N. Y. 10016
(212) 679-3709

February 2, 1977

Joseph A. Califano, Jr.
Secretary
Department of Health, Education,
and Welfare
Washington, D.C. 2020

Re: Items for Regulatory Action
in the AFDC and SSI programs

Dear Mr. Califano:

This is a joint response by me, Catherine Day Jermany, and by the undersigned staff of the Center on Social Welfare Policy and Law to your request when we met that I provide you with a listing of administrative actions that you could take to improve the welfare programs administered in whole or in part by the Department. Obviously, the catalogue of all possible beneficial administrative actions would be enormous and therefore we have focused on those actions which respond to the most pressing needs and would have the broadest impact.

The recommendations, which we summarize below, are discussed in greater detail in the attached memorandum. Even the memorandum, however, does hot present all the relevant information and therefore we would welcome an opportunity to discuss any or all of these matters further with your staff to facilitate their development of the issues.

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Regulatory HEW AFDC Issues

1. Definition of "unemployment" under AFDC-U program as less than 100 hours per month

Current HEW regulations limit eligibility under the AFDC-U program to needy families in which the father is working less than 100 hours a month, or approximately 23 hours a week. This is a greater limitation than that previously imposed by HEW and results in denying aid to many families whose income is below the state's needs standards because of the father's underemployment notwithstanding his employment for more than 23 hours a week.

Recommendation: The Secretary should redefine "unemployment" for the AFDC-U program to provide that any family in which the father is working less than full-time under industry standards, or less than 40 hours per week if there are no generally accepted industry standards, must be included in the AFDC-U program. In the alternative, the Secretary should at least return to the 1968 HEW definition -- less than full-time in the particular industry or less than 35 hours per week.

2. Child support enforcement regulations -- "good cause/best interest" rules: protection against grant decrease due to assignment of support

The August 1975 amendments to the child support collection program enacted in 1974 (and effective on August 1975) made two critical changes designed to protect families from harms caused by oversights in the original enactment. HEW has not yet implemented either of these amendments.

The first and most important change was an amendment to excuse a caretaker relative from the requirement of mandatory cooperation in establishing paternity and/or receiving support from responsible relatives when it is determined that such compelled cooperation "would be against the best interests of the child on whose behalf aid is claimed." HEW has not yet promulgated the final standards to be used in making such determination and is requiring states to implement the program and compel cooperation without application of the statutory exception. Many mothers are currently being forced to choose between their fear of harm to themselves and their children resulting from pursuing absent fathers and their fear of the harm resulting from loss of aid, the very choice which Congress sought to obviate.

The second amendment, adding §402(a)(28) to the Act, sought to eliminate a drop in income for certain AFDC families inadvertently caused by the child support program. The original enactment had failed to take account of the fact that certain states paying benefits which are less than the amounts determined by the states to be needed, do not reduce AFDC payments for each dollar of non-welfare income, but instead permit some or all of non-welfare income to "fill the gap" between the needs standard and the maximum payment level.

Recommendation: a) The Secretary should immediately order a review of the agency's proposed rules to implement the "best interests" amendments enacted by §208 of Pub. L. 94-88, and of the public comments submitted with respect to those rules, and should undertake a substantial review of those rules. A timetable should be set for issuance of final rules, and the rules should be issued no later than April 1, 1977. Pending the issuance of final rules, the Secretary should instruct the states to suspend enforcement of the cooperation and related requirements in any case where the caretaker relative expresses the belief that she or her child is in serious risk of harm because of such enforcement.

b) A regulation interpreting and implementing §402(a)(28) should be issued immediately, and HEW should take the necessary steps to ensure its prompt implementation in all applicable states.

3. Retrospective or Prior Month Budgeting

As reflected in current HEW regulations, 45 C.F.R. §233.20, the statute requires that only such income as is "actually available" for "current use" may be considered by the states in determining eligibility for and the amount of the AFDC grant. However, HEW has failed to disapprove state plans which compute the family's eligibility and payment amount for a current month on the basis of income received two months previously without regard to whether that income is still available. There is also strong evidence that HEW is actively encouraging states to adopt this procedure.

Under this system a family that suffers a total loss or reduction of income, such as a loss in earned income because of a layoff or a reduction in hours, must wait two months before its grant is increased to meet this increased need. This scheme also applies to applicants so that families recently made needy because of a lay-off might take two or three months to qualify for aid since their eligibility would be based on income earned in months prior to the lay-off.

Recommendation: The Secretary should adhere to current policy on the available income rule, and disapprove state plan provisions adopting a prior month budgeting method. In addition, HEW should formally withdraw its August 1975 proposal to amend its regulations to allow this budgeting system in order to remove any doubt as to the agency's current position and to provide much needed clarification to SRS Regional Office staff so that the confusion that has resulted from the proposal and the non-enforcement of current rules may be remedied.

4. Work related expenses -- a standard with exceptions

Section 402(a)(7) of the Act requires that, in determining need, state welfare agencies must take into consideration "any expenses reasonably attributable to the earning of income." The Supreme Court ruled in Shea v. Vialpando, 416 U.S. 251 (1974), that the use of flat standard amounts to determine work expenses, when rigidly applied to prevent individuals who had greater expenses from receiving a full deduction for such expenses, violated the requirement of §402(a)(7) that "any" work expenses be considered. The Court noted, however, that use of a standard deduction that permitted individuals to obtain a higher work expense allowance if needed would be consistent with the Act. Shea v. Vialpando, 416 U.S. at 265. Such a standard deduction, with provision for exceptions, set at a realistic "average" level, and updated periodically with the cost of living, could serve both state and recipient interests.

Recommendation: The Secretary should, pursuant to his authority under §402(a)(5) of the Act to require "such methods of administration . . . as are found by the Secretary to be necessary for the proper and efficient operation of each state's AFDC plan," mandate that each state establish, and justify with supporting data, *a reasonable standard work expense deduction. The Secretary should require that such standard be applied in all cases, subject to notice to recipients of their right to recognition of any expenses in excess of the standard which they can establish were "reasonably attributable to the earning of income."*

5. Denial of federal matching for AFDC payments conditioned on participation in work relief

Work relief refers to any system in which an individual is assigned to perform unpaid work as a condition of receiving needs-related cash assistance for her/his family. It creates a class of "second class" workers who perform work with neither the status nor the benefits generally accepted as the right of employees. For example, as non-employees they are excluded from collective bargaining, and from pension systems, and cannot aspire to promotion. In addition, generally the family suffers an out-of-pocket loss since they continue to receive only their regular AFDC grant without even any increment to account for the expenses incurred as a result of participation in the work relief assignment.

Despite the fact that current HEW regulations clearly bar federal matching for any AFDC payments which are so conditioned (except where the assignment is under the auspices of the WIN program), 45 C.F.R. §233.140, HEW is currently knowingly participating in state AFDC payments which are so conditioned, e.g., in Utah.

Recommendations: a) HEW should immediately advise any other states requiring participation in work relief that federal matching will be denied for AFDC payments made subject to such condition. The agency should adhere to its regulations unless and until such regulations are revised after proper rulemaking procedures.

b) To resolve this issue in a manner fair to all concerned, the agency should initiate a review of the regulation. This review should consider both the correctness or incorrectness of the interpretation that work relief is barred under AFDC, and the question of whether establishment of such a plan requirement entails a loss of all federal funding rather than just a loss of funding for the payments made to those families required to participate.

6. Development of standards for state work requirements

The decision of the Supreme Court in New York State Department of Social Services v. Dublino, 413 U.S. 405 (1973), held that the federal statute did not preclude states from establishing state-designed work requirements as conditions of eligibility in the AFDC program. The Court held, however, that any such requirements would have to be individually evaluated to determine their consistency with all of the requirements of the Act, 413 U.S. at 422-423. HEW has issued no guidelines to determine whether particular work requirements are permissible, and has not even issued a clear policy statement as to the general meaning of the Dublino decision. As a result, agency staff routinely accept and approve all but the most egregious state work rules in the mistaken belief that anything goes.

Recommendation: HEW should develop standards for acceptable state work rules with appropriate public notice and opportunity for public comment through the rulemaking procedure.

7. Effective date of entitlement

Current HEW policy provides that entitlement to AFDC for eligible families must be effective no later than the date on which aid is authorized or the thirtieth day following the application for benefits, whichever is earlier, and may be effective at state option as early as the first day of the month in which an application has been filed. 45 C.F.R. §206.10(a)(6)(i). This creates a disincentive to states to make decisions on applications promptly, since payment can be effective as late as the date of decision (if before 31 days). It also results in the disparate treatment of individuals based solely on their fortune or lack of fortune in having their case processed more or less expeditiously than others and/or the relationship of their filing date to the next regular payment date.

Recommendation: The Secretary should, by regulation, mandate that entitlement of AFDC should be computed, at a minimum, as of the date of application for aid.

8. Applications Process

The Social Security Act requires that all persons be able to apply for AFDC, and that benefits shall be furnished with reasonable promptness to all eligible persons. The AFDC eligibility determination processes of the states are in a shambles, however. Delays are inordinate, paperwork is excessive, duplicative and excessive verification is required, and the result is great harm both to needy and often desperate families and to the integrity of the local agencies and HEW.

This past year the Assistance Payments Administration identified improvement in the applications process as its number one priority for 1977. However, APA staff who were assigned to consider rule changes and the development of enforcement guidelines and procedures appear to have been diverted to other matters and have been able to make little progress.

Recommendations: The Secretary should announce publicly that a prompt and efficient applications process is a major priority in the AFDC program and that the agency intends to enforce existing regulations and modify regulations as necessary to achieve that goal. A timetable for development of any further guidance material and for obtaining final compliance should be announced. Agency staff should be directed to give this matter high priority and should consult regularly with recipient representatives at all stages of this process. SRS should be required to make regular reports to the Secretary and the public on the progress made.

9. Demonstration projects under §1115

Under §1115 of the Act, the Secretary is authorized to waive compliance with requirements of the Act pertaining to AFDC, medicaid, or social services in order to allow states to run "experimental, pilot, or demonstration" projects likely to assist in promoting the objectives of the Act. This authority was used for the first time during the Nixon and Ford Administrations to approve projects that took away benefits and protections specifically provided for applicants and recipients under the statutory provisions.

These approvals were especially egregious in view of the fact that the agency has such ill-defined processes for review of §1115 projects that it permits approval of projects which do not and cannot serve any valid experimental purpose. Moreover, the agency does not even have a process to determine whether its generally applicable procedures for determining the risk to human subjects and evaluating the risk/benefit ratio in experimental research (45 C.F.R. Part 46) have been met.

A proposed rule on §1115 projects published on February 6, 1976, is currently outstanding. That rule is no more than a codification of the existing process without any attempt to cure its deficiencies.

Recommendations: a) The Secretary should impose a moratorium on further approvals and waivers under §1115 and should withdraw the totally inadequate proposed regulation on demonstration projects. We should immediately require a full review of agency procedures (more accurately, lack of procedures) for analysis and review of state agency project applications, and of pending project applications, with a view towards rationalizing the decision-making process and truly limiting approvals to those projects clearly designed to further the objectives of the programs. This internal review should be undertaken in combination with a recommencement of the rulemaking process beginning with a Notice of Intent which will permit the input of concerned members of the public before a regulation is actually drafted.

b) The Secretary should initiate a study to determine whether there is any need for approval of §1115 projects which take away rights and benefits through compelled participation in the project. This study should consider, among other things, the possibility that substantially all of the matters worthy of investigation under §1115 could be undertaken by means available to the Department other than §1115 and/or on the basis of voluntary participation. At the very least, more stringent standards should be established for approval of projects which specifically diminish entitlements than for those which do not.

10. Quality Control

In recent years HEW has perverted the purpose of its mandated quality control (QC) system, under which states are supposed to review a statistically valid sample of actions and report to HEW on the scope of errors in eligibility and payment determination, and establish corrective action to deal with categories of errors. 45 C.F.R. §205.40. Two related agency actions in 1973 were particularly damaging. First, HEW proposed to use the result of QC reviews to deny federal financial participation to states based on the rate of error revealed by the sample QC reviews (45 C.F.R. §205.41); second, it totally eliminated from the QC review and corrective action requirements the review of so-called "negative case actions," i.e., denials of and terminations of aid.

By coupling the fiscal sanction with the elimination of negative case actions HEW placed none too subtle pressures on the states to curb their rolls without respect to actual eligibility. The rate of incorrect denials could be hidden from public view, while aid paid in good faith in a "close case" to a family subsequently proved to be ineligible would not be reimbursed. Obviously, the states were thereby pressured to deny "close cases."

Two recent developments give the new Secretary a good opportunity to reexamine this prior agency policy. First, a federal court has invalidated the current fiscal sanction regulations as "arbitrary and capricious", Maryland v. Mathews, 415 F. Supp. 1206 (D.D.C. 1976). Second, in response to another lawsuit, WROAC v. Mathews, No. 75-2108, D.D.C., filed December 17, 1975, the former Secretary recently proposed to reinstate negative case action reviews to the AFDC and Medicaid QC programs. 41 Fed. Reg. 55727 (December 22, 1976).

Recommendation: The Secretary should formally repeal the fiscal sanction rule and instead commit the agency to a non-punitive federal-state effort to enforce and improve the corrective action requirements. Further, the Secretary should promptly issue in final form the rule restoring negative case actions to the QC programs, and make such rule effective as soon as possible.

11. AFDC for mothers of disabled children receiving SSI

In enacting the SSI program, Congress deliberately included disabled children within its terms in recognition of the special needs of such children not adequately met under AFDC. However, HEW has taken the view that where the only needy and dependent child receives SSI instead of AFDC, the child's mother or other caretaker, who is otherwise eligible for AFDC for her own needs, may not receive AFDC for those needs.

As a result, the family is pressured into rejecting SSI for the child so that both child and relative can get AFDC, since the SSI payment is usually lower than the AFDC payment for two, and the denial of AFDC jeopardizes the mother's medicaid coverage. Consequently, the child is deprived by this HEW policy of the advantage of the more generous payments under SSI, and the states are required to pay larger AFDC benefits that they would otherwise pay.

HEW's view was recently rejected by a federal court in McGranahan v. Whalen and Mathews, ___ F. Supp. ___ (D.N.H. January 21, 1977)), and HEW recently advised that it is reconsidering its position. See the preamble to the rule established at 41 Fed. Reg. 54489 (December 14, 1976) amending 45 C.F.R. §233.20.

Recommendation: The Secretary should expedite review of the agency's current policy under which needy relatives are denied AFDC when their only child elects to receive SSI, and should make a decision in favor of the eligibility of these caretakers.

12. Fair Hearings

Many state fair hearing systems fail to provide "fair hearings" in any true sense of the word. Many of the defects grow out of deficiencies in the federal fair hearing regulations. SRS has published a Notice of Intent to revise fair hearing regulations, which does not address these problems, and also is so broad as to virtually preclude comment on all of the potential issues raised.

Recommendation: SRS should be required to narrow and focus the issues requiring revision of fair hearing regulations after consultation with representatives of concerned groups and in light of its own staff capabilities. It should then publish a new Notice of Intent specifying those issues and conduct field investigations and public hearings to learn more about the problems to be addressed.

Regulatory HEW SSI Issues

1. Delays in adjudication of SSI claims

The preeminent administrative problem in the SSI program is the long delay at all stages of the claims process - action on applications, holding of hearings, issuance of hearing decisions, and Appeals Council review of hearing decisions. The harms imposed by these delays include not only the severe hardships caused for program beneficiaries but proliferation of overall administrative costs resulting from the state costs attributable to establishment of state systems to alleviate these hardships and from federal and state costs related to the need to then coordinate the federal and state systems. Furthermore, the state systems such as interim assistance at the application stage are often inadequate to meet the need, since they require the individual to meet state eligibility standards.

Recommendation: HEW should immediately undertake to publish time standards for the adjudicative process in SSI, commencing with simultaneous publication of a Notice of Intent and staff development of the time limitations feasible under existing processes. If the currently feasible time limitations so developed are not sufficiently responsive to the need for promptness, the agency should establish a process with specific time frames within which it will move towards shortening of the time needed to adjudicate claims.

2. Notices of claims decisions

The SSA uses a mixed system of computerized and individually prepared notices of decisions. The computerized notices are based on the use of prepared stock paragraphs, and individually prepared notices are used in only those situations which the agency has decided cannot be dealt with in stock paragraphs. Notices generated under both systems are grossly inadequate both in terms of the information contained in the notice and the language in which it is conveyed.

Recommendations: a) The agency should immediately undertake further revisions of its standardized notice forms, consulting with informed members of the public such as recipients' representatives and with communications specialists who can devise ways to convey information in a way that is meaningful to a population with the expected limitations of the needy aged, blind, and disabled. Computerization of notices should be secondary to providing adequate notices and should give way whenever both goals cannot be achieved. There should be immediate implementation of the revised standard notice forms finalized in April 1976 as a replacement for the more deficient earlier notice forms which are still in use.

b) The agency should establish special training in the manual preparation of notices and should install a special system of review of notices sent, akin to Quality Control, to determine the adequacy of such notices and to identify the need for corrective action such as clarification of staff instructional material in the notice area.

Regulatory HEW AFDC/SSI Issues

Rulemaking processes

SRS and SSA rulemaking generally suffers from a lack of geniune opportunity for public participation, with much "rulemaking" in memoranda, manuals, etc, thereby largely bypassing public notice and participation. In the case of SSA this even results in the application of different rules at different levels of the adjudicatory process. In addition, the quality of agency staff work has been seriously deficient, so that many policies and regulations are adopted without development of an adequate record or genuine consideration of proper alternatives. These deficiencies have not been cured by the newly adopted procedures for agency rulemaking (41 Fed. Reg. 34811 (August 19, 1976)).

a) Problems with "Notices of Intent": The new requirement that the agency publish a "Notice of Intent" to engage in rulemaking has been ignored by SSA, while SRS has published such broad and numerous NOI's that the public cannot possibly respond meaningfully to all the issues raised. Moreover, these publications far outstripped SRS's internal capacity to accomplish revisions.

Recommendation: SRS and SSA should be directed to identify those areas in which rulemaking may be called for, and then issue Notices of Intent, at such time as the agency is truly ready to address the issues, which advise the public with some specificity on the precise matters on which comment is sought. Outstanding Notices of Intent which do not provide this specificity should be withdrawn or revised.

b) Need for timetable and notices of withdrawal: It is not uncommon for a Notice of Proposed Rulemaking to pend for a year or more without any indication of its status, or for the agency to simply abandon pursuit of the proposal without any public notice. This leads to confusion among agency staff themselves, particularly regional staff, about the agency's intentions, and to interference with orderly development of state and local agency processes because of a concern that federal regulations will change, and even judicial resolution of issues is impaired.

Recommendation: The Secretary should require that all Notices of Intent and Notices of Proposed Rulemaking contain timetables for further agency action and a statement that failure to take action by that date results in withdrawal of the Notice absent a specific publication of an extension. Any such extension should also provide some status report, and solicit additional comment where appropriate. Furthermore, the Secretary should publish a notice of withdrawal of rulemaking proceedings whenever and as soon as a decision is made not to move forward on a Notice of Intent or Notice of Proposed Rulemaking.

c) Adequate provision of information to public in rulemaking process: HEW's procedures do not specifically require publication of information which is necessary if the public is to participate meaningfully in the rulemaking process, and such information should all have been gathered and considered by agency staff prior to the publication of the Notice.

Recommendation: The Secretary should require each Notice of Intent and Notice of Proposed Rulemaking to include or refer to the reasons for considering a change in policy, all factual information and policy considerations being taken into account, the precise statutory authority on which the agency would rely, and a statement of the intent of the change if formulated.

d) "Statement of Basis and Purpose": HEW's current procedures do not adequately state the required content of the Statement of Basis and Purpose mandated by the Administrative Procedure Act. This is particularly dangerous in light of the fact that past "Statements" accompanying welfare regulations have been so deficient that courts have rejected the regulations on that ground alone. NWRO v. Mathews, 533 F.2d 637 (D.C. Cir. 1976).

Recommendation: The Secretary should adopt rulemaking procedures which would require each final regulation to be accompanied by a Statement of Basis and Purpose setting out in full both the factual predicates upon which the regulation was based and all policy issues and the manner in which they were resolved. Consideration should be given to also identifying in such Statement the memoranda submitted to the Secretary debating the merits of the regulation, and making them available on request.

e) Petition for rulemaking: Recipients and their advocates now have no way to trigger agency rulemaking processes. HEW's waiver of its "grants and benefits" exemption from 5 U.S.C. §553 with respect to agency rulemaking under §§553(b) and (c), does not extend to the provision for a petition for rulemaking under §553(e).

Recommendation: The Secretary should waive the "grants and benefits" exemption of 5 U.S.C. §553 to permit members of the public to petition for rulemaking.

f) Back-door rulemaking: Both SRS and SSA issue various types of policy material, such as SRS Program Instructions and the SSA Claims Manual, without any public notice or opportunity to participate. Often these materials contain new policy, or interpretations or clarifications affecting substantial rights, and sometimes even countermand published regulations. Generally, these materials are not readily accessible to members of the public. This reliance on in-house manuals or memoranda to establish rules has also created in SSA a system of disparate standards for decision-making depending on the level of adjudication.

Recommendation: SRS and SSA should expand the content of their regulations so as to include fuller or more accurate statements of agency rules and thereby narrow the possibility that the true rules will be reflected only in in-house materials and not in the published regulations. The issuance process for any non-regulatory statements purporting to reflect agency policies and rules should require that such statements be compared with published regulations to determine whether they significantly add to such published regulations, and that, if so, the agency initiate appropriate rulemaking procedures. All systems of policy issuances should be identified in the Federal Register, and indexes to the contents thereof should be published in the Federal Register. Such materials should be directly provided to members of the public either on request or through a regular distribution process to which persons may subscribe.

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As noted above, we welcome this opportunity to provide you with our views as to immediately necessary administrative changes. However, many of the most needed changes in the welfare programs obviously cannot be accomplished administratively, but will require legislation. We know that you will be considering major reform proposals between now and May 1, and are hopeful that your study group for this purpose will include individuals and organizations such as ours who truly can speak to the issues from the standpoint of recipients. Such insight is particularly necessary to ensure that your proposal does not inadvertently include procedures and systems which hinder rather than enhance the protection of needy families. We are certain that the agency staff with whom we have worked in the past, particularly SRS, would agree that our contributions in this respect in administrative and legislative matters have been both essential and unique.

In addition, in light of the time that will pass before any major "reform" can be adopted and implemented, it is likely that interim legislation affecting welfare programs will be pressed by some in Congress. There are many amendments which would improve the programs from the point of view of the poor, e.g., expansion of the AFDC-U program to cover families made needy by the unemployment of the mother and to make such program mandatory in each state, and elimination of the "six-month" rule in SSI which unfairly pays spouses living apart less than eligible individuals. We are concerned, however, that any amendments move toward greater uniformity in coverage, benefits, and administration, so that ultimate federal take-over and consolidation will be eased. We would welcome an opportunity to provide you and/or your staff with our further thoughts as to amendments which meet these criteria and might be feasible on a short-term basis.

In this connection, there is also a danger that the substantial fiscal relief to the states and localities now being advocated by many would remove much of the impetus both for major reforms of the welfare system and for imtermediate improvement. While it is true that increased federal funding is necessary for real improvements in the welfare system, it is not necessarily true that increased federal funding by itself will improve the system. It is therefore essential that any fiscal relief measure contain immediate improvements in the program, assure that recipients receive the benefit of the additional federal funding, and lead into major reform in the near future. One way to help to assure this is to place a time-limit on any fiscal relief. Should fiscal relief legislation begin to move, we would like to work with you in developing positions that would assure that the interests of the poor are protected.

We wish you well as Secretary, and look forward to working together to provide true income security to all families.

Sincerely,

Catherine Day Jermany

Henry A. Freedman
Steven J. Cole
Adele M. Blong

HAF/AMB/SJC:dt

bc: Catherine Day Jermany
Library

Mr. FOUNTAIN. Dr. Nathan.

STATEMENT OF DR. RICHARD P. NATHAN, SENIOR FELLOW, THE BROOKINGS INSTITUTION

Dr. NATHAN. Thank you, Mr. Chairman.

I will read parts of my testimony and ask that the remainder of my testimony, the full statement, be put in the record.

Mr. FOUNTAIN. I would like to say that all of the full statements will become a part of the record for the consideration of the committee.

Please proceed.

Dr. NATHAN. Thank you very much.

First of all, Mr. Chairman, I would like to commend the subcommittee for calling attention to the nuts and bolts of welfare program administration. In my opinion, there is too much big theorizing that goes on in Washington, and not nearly enough attention devoted—as this subcommittee is doing—to learning how welfare programs really work and learning what the issues are of welfare program administration.

In particular, Mr. Chairman, I would like to commend you and your colleagues for asking the Congressional Research Service to prepare this excellent committee print which contains easy-to-read, interesting information on the current state of the administration of the most controversial of our Nation's welfare programs, the aid to families with dependent children program.

I would also like to say, Mr. Chairman, that it seems to me that your interest in the nuts and bolts of welfare is very much related to the global question now being debated in Washington of: What kind of welfare reforms should the new administration propose?

I draw certain lessons from this committee print which reinforce my view that the administration is on the wrong track in trying to have a complete, sweeping overhaul of welfare instead of working within existing law and existing programs. I am going to devote myself primarily to this question.

As I understand it, the subcommittee is asking today: Can useful and meaningful changes be made within the present framework of welfare programs?

My answer is strongly in the affirmative. On May 2 of this year a White House statement of principles for welfare reform said: "The most important conclusion is that the present welfare programs should be scrapped and a totally new system implemented."

Much of the data that your subcommittee brings to the attention of the public suggests that that is not the right conclusion to reach in this period.

Since the jettisoning of the Nixon administration's family assistance plan, which I was involved in working on, two viewpoints have emerged among experts on welfare as to the next phase for welfare reform.

One view is that welfare is such a mess that the only way to go is to start with a clean slate—to abolish the current system and put a new one in its place. This view, often referred to as the "comprehensive reform position," is reflected in recent statements and decisions of the Carter administration on welfare reform.

The second position which has emerged has been referred to by the term "incrementalism." As contrasted to the "comprehensive reform" approach, the incremental position holds that it is better to work within the framework of existing programs, to overhaul and rationalize them, and to combine them in more sensible ways.

In short, the choice is not necessarily whether to reform welfare but how to reform welfare. It is the position of this testimony, as I have indicated, that for substantive, tactical, and administrative reasons, the incremental position to welfare reform is the right approach for those interested in this subject.

By "welfare reform," Mr. Chairman, I refer to efforts to provide more adequate benefits to more people while, at the same time, increasing the fairness and administrative integrity of these programs.

There are two sets of reasons for my conclusion that what we should do is make changes in existing law rather than scrap existing law and spend 7 or 8 years setting up a completely new system.

One of these sets of reasons, which I will deal with very briefly, has to do with jobs. The other has to do with the material in the committee print on the AFDC program.

On jobs, the administration has a major effort underway to write new job creation legislation as part of its "comprehensive reform of the Nation's welfare system."

The goal of jobs for welfare family heads is an important and essential one, but there are several reasons why new job-creation legislation is not needed now.

First and foremost, the administration itself—as part of its countercyclical economic stimulus program—successfully backed what has to be called a huge expansion of the existing job-creation programs with funds for an annual level, at the end of this year, of 725,000 new public jobs, and that does not include another 200,000 jobs for various special purposes, particularly youth, as indicated by a footnote in my written statement.

These jobs—the 725,000, title VI and title II CETA jobs—are required to be targeted on the long-term unemployed and, as specifically stated in the law, AFDC recipients. For either group, in order to be eligible for this program, a person—or a family—needs to be below 70 percent of the lower income level for the area in which they reside, as defined by the Bureau of Labor Statistics.

Mr. FOUNTAIN. Excuse me, Dr. Nathan. The subcommittee will take a recess for a vote, and return to continue hearing from you, Doctor.

[A recess was taken.]

Mr. FOUNTAIN. The subcommittee will come to order.

Dr. Nathan, we have had at least our first half mile of exercise this morning. Let's continue.

Dr. NATHAN. Thank you, Mr. Chairman. When we broke off, I was dealing with two major sets of reasons why, in my opinion, the kind of evidence that has been brought to bear in these hearings suggests that there ought to be what has been characterized as an incremental approach to welfare reform, rather than some grand, new legislative design.

I was reading from my testimony on page 3, at the top of the page, and pointing out that while the administration is designing new job-creation legislation, the U.S. Government is implementing the biggest job-creation program since WPA under the current countercyclical stimulus program.

These jobs are required to be targeted on the long-term unemployed and—as specifically designated in the law—AFDC recipients. That is in the law.

Persons eligible for these newly created public service employment jobs must be below 70 percent of the lower income level for their area, as defined by the BLS.

Therefore, I come to the conclusion that this is not the time to design a new job-creation program—a characteristic problem in Government, by the way. This is the time to implement the current law, to use this authority to see to it that welfare family heads are brought into jobs and have access to these programs so we can learn from this experience about how to improve the operation of job programs to help this group—AFDC recipient family heads, particularly—to stay in the labor market.

As the committee print points out, it is estimated that 40 percent of all mothers on AFDC have earnings for some part of the year. In short, significant numbers of welfare family heads already have jobs or job experience. Jobs for welfare family heads are, by no means, a new idea.

I would like now to indicate five reasons, looking at the AFDC program and looking at some of the things that are stated in the committee print, why in my opinion the incremental approach to welfare legislation and management is the right approach for welfare reform in 1977.

First of all, welfare-program management in the United States is improving. Nearly all States now have some automation. The committee print points out how these automation components have been growing rapidly.

These systems are being improved. I quote from the committee print:

> Not only has EDP—automated data processing—emerged as an essential management tool, it has become an effective one as well. States indicated in the Congressional Research Service survey that processing does improve after the implementation of computerized functions.

In part because of these new automation systems and in part because of the recent strong Federal program of the last 5 years to achieve higher quality control standards—another subject which is well treated in the committee print—welfare error rates are declining.

Further improvements are needed, Mr. Chairman, but in April to September of 1973, which is the base period, the average welfare error rate for the Nation was 41.1 percent, using the best combined figure.

Last year—January to June 1976—the comparable rate was 24.6 percent. With the exception of New York State and the District of Columbia, the statistics are generally encouraging

Commissioner Bernstein has presented some newer figures on New York today. I hope they indicate that New York, too, is showing some progress.

The committee print indicates significant progress on AFDC automation and on reduced errors and greater program accuracy, especially when compared with error rates for other income-support programs.

AFDC error rates are roughly comparable to the now fairly well established—I guess I would say—SSI program. They have pretty well gotten the bugs out of SSI; AFDC error rates are much lower than the food stamp program.

When I was in government, I compared the error rates of IRS at a meeting we held with them with welfare error rates, and I would add that, today, error rates in welfare are beginning to approach the general level of quality of the IRS system.

There are signs here that things are getting better. We ought to make them even better instead of blowing a whistle and stopping for 8 years, spending our time—State officials and Washington officials running around Washington—talking about grand new schemes.

These important efforts to improve welfare administration—automation and quality control systems—as I just said, would be put on the back burner for a long time if the Nation once more engages in an emotional and controversial legislative debate about what is one of the most complex and difficult political issues in the Nation; namely, welfare programs.

Furthermore, Mr. Chairman, welfare benefit levels are less varied from State to State than is customarily stated in dramatizations of welfare programs on TV. If you combine AFDC and food stamps, as the committee print does on page 28, the potential monthly benefit for a family of four in Mississippi in July of 1976 was $213 compared to $441 in California. That is not a 7- or 8-to-1 difference; it is a 2-to-1 difference.

I looked, this morning, at the committee print in relation to the new figures just announced by Secretary Califano about a $3,800 minimum payment under his presently considered welfare reform plan. There are only 10 States in the Nation that are currently below that level. That would involve very little real change in terms of improving benefit levels.

The third reason for saying—and, again, basing this on the committee print—that we should not have a big, new, bold, single-stroke welfare reform plan, but rather a set of incremental changes, is that the fiscal drain of welfare programs on big cities also tends to be exaggerated.

The problem of welfare drains on the budgets of what we, in our Brookings research, have referred to as "hardship cities," is shown in the committee print to be less serious than commonly believed.

The print states that only 11 States require significant amounts of local—which is mostly county—spending for welfare. New York City, Washington, D.C., and Denver are the main city governments that have to pay for welfare programs.

Even in these 11 States where the local share is, in every case, lower than New York's required local shares, that amount is paid by county governments which often have boundaries that go way beyond the cities. For instance, in Rochester, N.Y.—that is, Monroe County—it is the county that pays the local welfare share; the county includes extensive suburban territory.

The fourth reason for stating that an incremental approach makes sense—I am stressing administrative issues—involves the point that the dominant mode for welfare today is State administration. It is true that the two largest States—New York and California—have county administration with State supervision, which, in California, I think I would have to say, Mr. Chairman, seems to work pretty well.

Your committee print again demonstrates that error rates and administrative costs in California have improved at a rate much faster, unfortunately for New York, than is the case in New York. It would take years—there is no question about it—to convert New York to a State-administered system.

Therefore, we have, in the main, State administration now and, in the two biggest States where we have county administration, it seems to work well in one State and badly in the other. However, the complexities of this system are such that if we went to State administration in New York it would be exceedingly difficult, and it would take a very long time.

I would like to speak to the fifth reason why I think things are getting better in welfare and why I think the welfare mess is overstated by people who want to have grand schemes for grand changes. It is that fraud problems are increasingly being dealt with in welfare. Again, quoting the committee print:

"What limited data we have indicate that States are, more and more, effectively coming to grips with AFDC fraud and instituting policies designed, at least, to expand their capability to identify potentially fraudulent situations. Increasingly, they are detecting and following up on instances of AFDC fraud."

I go in, in my prepared testimony, to generalize about administrative issues.

We are often, I think, too confident in Washington about how well centralized bureaucracies can perform exceedingly complex tasks. We should have learned something from the SSI experience. The administration of a reformed welfare program is no exception.

Any program that aids people who move around a lot, often have interrupted and shifting income flows, and perhaps limited reading and computational skills, is bound to be hard to administer no matter how beautifully designed it is.

Now, Mr. Chairman, I am going to skip to page 9 of my testimony and quickly review some of the legislative and administrative changes that I think should be considered.

Admittedly, statements of this length tend to portray alternatives in quite sharply contrasting terms. In truth, the line between what I would call "incremental reform" and "comprehensive reform" is a wavy, unclear line.

Furthermore, it needs to be pointed out that the administration, in several ways, can already be said to be embarked on incremental welfare reforms. Incremental welfare reform could deal with quite basic changes.

I will list some things I think could be considered on an incremental agenda that would permit us to move faster and build on the progress that is being made, instead of delaying as long as we would delay with a fundamental start from "square one" on welfare reform, which apparently is what Secretary Califano and the administration are going to send to the Congress.

First of all, food stamps. The universalization of food stamps is the most important change in welfare policy since the adoption of the Social Security Act of 1935. The food stamp program reduces disparities in AFDC benefits and is an important method of supplementing the income of the working poor. It supplements the income of the working poor at a better level than would have been the case if President Nixon's family assistance plan had been enacted.

This program—the food stamp program—will be substantially improved by removing the requirement that people have to purchase their food stamps. This is an incremental reform which, I am happy to say, has been backed strongly by the administration. It is in both versions of the farm bill and it is undoubtedly going to pass.

Also, as Commissioner Bernstein points out, going to a standard deduction will make this program easier to administer. With elimination of the purchase requirement, it will also be more available, particularly to the working poor.

Second, AFDC. A number of things could be done to the AFDC program, and I list several of them on page 10 of my testimony.

First of all, a national minimum payment level could be introduced, just as in the administration's plan, but much more simply.

You could also mandate the coverage of two-parent families with an employed head, that is, mandating the AFDC/UF program.

Third, you could adopt—and I would favor this—national eligibility standards to get rid of some of the kinds of problems that Ms. Blong indicated in her testimony exist, but still with a State-administered system built on the current law.

Next, I think you could consider adding a cost-of-living adjustment, like there is now in the food stamp program and in the SSI program.

Finally, on AFDC, I think the law could be written so as to push the States strongly toward State administration, but to understand how difficult that would be.

Next in my testimony I deal with other groups of needy persons. The real clue to the administration's plan, if you finally get into it and understand the numbers—and I have been trying to do that—is that it would probably add millions of people to the welfare rolls who are not now receiving benefits under AFDC and food stamps.

In order to do that and not spend more money, the new plan is obviously going to have to disadvantage some current recipients, and that is one of the things that troubles me much.

A number of organizations have suggested that the AFDC program be extended to include childless couples and unrelated individuals.

My view is that this is of a lower priority as a welfare reform than the steps just indicated. Both groups are eligible for food stamps. Furthermore, they are, indeed, the most controversial of all actual or potential welfare or food stamp program recipients. Manpower strategies, in my opinion, are the best way to deal with this group.

Next is manpower. Job creation and related manpower programs are an important item on the welfare reform agenda. Here, too, the Carter administration deserves credit for already going down the incremental road by greatly expanding public service employment programs and targeting them on the poor, now to somewhere on the order of 1 million jobs by the end of this year and those jobs are clearly targeted on job creation for the poor.

Administrative steps to make this program work is what we need, steps to really push the bureaucracy on this program. The Employment Service is the agency that needs particularly to be the subject of these kinds of efforts.

The next category is management. Some of the changes discussed are legislative, for example, national eligibility standards, a minimum benefit under AFDC; others are managerial.

I would point out, in this connection that the Urban Institute is soon to release a study on how to make quality control systems work better.

Right now, the Government is extending quality control to food stamps and medicaid using the same principles and strategies that have been used quite successfully to improve the quality of administration under AFDC.

I also believe that, ultimately, we should merge the AFDC and food stamp programs and put the food stamp program in HEW, instead of in the Department of Agriculture, and that priorities should be assigned to these efforts to set up quality control for food stamps and medicaid. That is where the error rates and payment errors are really severe.

Again, the administration is on this track. Secretary Califano and others have been working particularly on antifraud and quality control for the medicaid program.

Finally, it seems to me that the incremental reform agenda, which would involve both management and legislative changes, should include fiscal relief to State governments and to local governments, where applicable, as a way, frankly, of bringing the Governors and the local governments into a coalition to support important changes in the law.

However, again, I point out that the cities that would be most affected are relatively few—New York, Denver, and the city we are in.

In sum, while incrementalism as an approach to welfare legislation and welfare reform may be a conservative strategy—reflecting, perhaps, my own agonizing experiences in working on welfare reform for 4 years in the Government—it is not necessarily a conservative policy.

We can do bold things and important things by changing the current law, building on the kind of steps that have been taken to improve the administration of current programs, and making these kinds of efforts go even faster as documented so well by this committee in its new committee print on AFDC.

The targeting of more public service jobs on the needy and the overhaul, as I have indicated, of the policies and management of AFDC and medicaid would have far-reaching consequences for human resource policy. This is something we could embark on now much more efficiently with a set of incremental policy changes, as opposed to having a single new supersystem.

This is going to be an issue of increasing controversy in the next few months. Your committee has provided extremely useful material on this question which, from my personal point of view, reinforces the approach which I have come to think is the best approach for welfare policy at this point in time.

I thank the subcommittee for the chance to read this new material in the committee print. I hope these comments will be useful.

Mr. FOUNTAIN. Thank you very much, Dr. Nathan.

[Dr. Nathan's curriculum vitae and prepared statement follow:]

Curriculum Vitae

Richard P. Nathan

Positions

Senior Fellow and Head, Monitoring Studies Group, The Brookings Institution, Washington, D.C.

Visiting Professor, University of Virginia, Charlottesville, Va., 1973-Present.

Secretary-Treasurer, Manpower Demonstration Research Corporation, New York, N.Y.

1971-1972	Deputy Under Secretary, U.S. Department of Health, Education, and Welfare.
1969-1971	Assistant Director, U.S. Office of Management and Budget.
1967	Associate Director, U.S. National Advisory Commission on Civil Disorders.
1966-1969	Research Associate, The Brookings Institution.
1963-1964	Director, Domestic Policy Research, Nelson A. Rockefeller.
1959-1962	Legislative Assistant to Senator Kenneth B. Keating.

Education

1966	Ph.D. in Political Economy and Government, Harvard University.
1957	B.A. Brown University (Phi Beta Kappa, magna cum laude).

Selected Publications

Revenue Sharing: The Second Round, with Charles F. Adams, Jr., and Associates, Brookings, 1977.

Block Grants for Community Development, with Paul R. Dommel and others, First Report on the Brookings Institution Monitoring Study of the Community Development Block Grant Program, U.S. Department of Housing and Urban Development, January 1977.

"The Cities", Chapter 9, with Paul R. Dommel in *Setting National Priorities, The 1978 Budget*, Brookings, 1977.

The Plot that Failed: Nixon and the Administrative Presidency, John Wiley & Sons, 1975.

Monitoring Revenue Sharing, with Allen D. Manvel and others, Brookings, 1975.

Jobs and Civil Rights, U.S. Commission on Civil Rights, 1969.

Revenue Sharing and the City, Editor with Harvey S. Perloff, Johns Hopkins, 1968.

"The Policy Setting" and "The Case for Tax Sharing" in Revenue Sharing and Its Alternatives, Joint Economic Committee, 1967.

"The Potential Impact of General Aid to Four Selected States" in Fiscal Issues in the Future of Federalism, Committee for Economic Development, 1968. (Ph.D. dissertation)

Recent Articles

Monitoring The Block Grant Program for Community Development", Political Science Quarterly, Summer 1977 (with Paul R. Dommel and others).

"Incremental Welfare Reform," Challenge, May-June, 1977.

"Understanding Central City Hardship," Political Science Quarterly, Spring 1976 (with Charles F. Adams, Jr.).

"The Administrative Presidency," The Public Interest, Summer 1976.

"Food Stamps and Welfare Reform," Policy Analysis, Winter 1976.

Personal

Born, November 24, 1935 (Schenectady, New York)
Married, the former Mary Lucas McNamara, 1957
Two children, Robert (16), Carol (13)

Address

Office: The Brookings Institution
1775 Massachusetts Avenue
Washington, D.C. 20036
(202-797-6066)

Home: 7503 Cayuga Avenue
Bethesda, Maryland 20034
(301-229-4078)

Date: August 1, 1977

Prepared Statement of Dr. Richard P. Nathan, Senior Fellow, The Brookings Institution[*]

As I understand it, the question for today's hearing is, can useful and meaningful changes be made within the present framework of welfare programs? My answer is strongly in the affirmative. I believe the Carter Administration is on the wrong track. On May 2 of this year, a White House statement of "principles" for welfare reform said, "the most important conclusion is that the present welfare programs should be scrapped and a totally new system implemented."

Since the jettisoning of the Nixon Administration's Family Assistance Plan in 1972, two viewpoints have emerged among experts as to the next phase for welfare reform. One view is that welfare is such a mess that the only way to go is to start with a clean slate, to abolish the current system and put a new one in its place. This view, often referred to as the comprehensive reform position, is reflected in recent statements of the Carter Administration on welfare reform.

The second position which has emerged is referred to by the term, "incrementalism". As contrasted to the comprehensive reform approach, the incremental position holds that it is better to work within the framework of existing programs, to overhaul and rationalize them, and to combine them in more sensible ways.

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[*] The author is a senior fellow at The Brookings Institution; the views presented here are his alone and do not represent the position of the officers, trustees or other staff members of the Institution.

In short, the choice is not necessarily whether to reform welfare--but *how* to reform welfare.

Proponents of the comprehensive reform approach have tended to regard incremental strategies as "second-best" positions, the case for which is essentially political and tactical. By contrast, it is the position of this testimony that both for substantive and tactical reasons the incremental position is the right approach for those interested in reforming welfare programs. (By welfare reform, I mean providing more adequate benefits to more people, while at the same time increasing their fairness and administrative integrity.)

There are two sets of reasons for this conclusion. One has to do with jobs, the other with welfare programs.

Work and Welfare

There is no question that programs that provide cash and in-kind assistance to families headed by persons of working age should have work incentives and a strong work requirement. New jobs should be created for welfare family heads.

The Carter Administration has a major effort underway to write new job creation legislation as part of its "comprehensive reform of the nation's welfare system."*

The goal of jobs for welfare family heads is, of course, a worthy one, but there are several reasons why brand new job creation legislation is not needed now:

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* Phrase quoted is from White House statement, May 2, 1977.

- First and foremost, the Administration itself, as part of its 1977-78 Economic Stimulus Program, successfully backed a large expansion of the existing job creation program with funds for an annual level of 7[illegible] thousand new public jobs by the end of this year.* These jobs are required to be targetted on the long-term unemployed and--as specifically designated in the law--AFDC recipients. Persons eligible for these newly created public service employment opportunities must be below 70 percent of the "lower-income level" for their area, as defined by the Bureau of Labor Statistics.

  This is not a time to design a new job creation program, but rather to implement current law to see to it that welfare family heads have access to existing programs, and to learn from this experience about how we can improve the operation of current programs to help this group enter and stay in the labor market. An estimated 40 percent of all mothers on welfare have earnings for some part of the year. In short, significant numbers of welfare family heads already have jobs or job experience; jobs for welfare family heads are by no means a brand new idea.

- A second reason for the conclusion that the design of brand new welfare job creation legislation is not what is needed at the present time has to do with how people are categorized and treated by government. In my view, it is better to have a job creation program for all lower-income persons who need a job, rather than having a separate and special program labeled (perhaps pejoratively) jobs for "those" welfare recipients.

- A third reason for this conclusion is that new program design and legislation take time. Why not work now with existing authority to provide more jobs for employable welfare family heads, perhaps expanding this authority still further as experience is gained and the capacity for achieving this goal is increased.

What Next for AFDC?

The second set of reasons for favoring an incremental approach to welfare reform has to do with the current state of welfare programs. The

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* This does not include another 190 thousand jobs to be created for youth and other special programs for public and private-sector jobs.

House Government Operations Committee has performed an important service by having the Congressional Research Service prepare an excellent analysis of The Administration of the AFDC Program, April 1977. This Committee Print contains significant new and updated information that demonstrates further why it is better to work within existing programs, rather than taking on the creation of a sweeping new welfare supersystem. The next section of this testimony presents five reasons why revisions of AFDC should be undertaken rather than comprehensive welfare reform; it draws heavily on data from the Committee Print.

1. Welfare Program management is improving.

Nearly all states now have some automation of their welfare systems. These systems are being improved and expanded rapidly. The Committee Print states,

"Not only has EDP emerged as an essential management tool, it has become an effective one as well. States indicated in the Congressional Research Service survey that processing does improve after the implementation of computerized functions." (Committee Print, p. 147)

In part because of these new automation systems and in part because of the strong Federal program of the last five years to achieve higher "Quality Control" standards, welfare error rates are declining. Further improvements are needed, but in the April-September, 1973 base period, the average welfare error rate for the nation was 41.1 percent; last year in January-June, 1976, the comparable rate was 24.6 percent. With the exception of New York State and the District of Columbia, the statistics are generally

[illegible]

encouraging, especially when compared to error rates for other income-support programs. AFDC error rates are roughly comparable to those for the SSI program and much lower than those for the food stamp program. "Quality Control" systems similar to that now operating for the AFDC program are being developed for the Medicaid and food stamp programs.

Among States with what can be termed "positive welfare systems indicators" are Florida, Minnesota, Oklahoma, Oregon, South Dakota, Texas, Washington and West Virginia--and also (but less strongly) California, Indiana, New Jersey and Pennsylvania.

The Committee Print singles out several of these states as having "sophisticated statewide EDP systems"--Florida, Oklahoma, Oregon, South Dakota and West Virginia. Other states are currently planning to adopt "integrated information systems".

These important efforts to improve welfare administration (automation and new "Quality Control" systems) would be put on the back burner for five to six years if the nation once more engages in an emotional and controversial legislative debate about a new welfare supersystem.

2. Welfare benefit levels are less diverse than is customarily stated in dramatizations of welfare problems.

Combining AFDC and food stamps, the potential monthly benefit for a family of four in Mississippi in July 1976 was $213 compared to $441 in California and $511 in New York (Committee Print, p. 28).

In the last decade there has been tremendous growth in income-support programs. An essential factor often overlooked in evaluating this growth is that Census Bureau personal-income data do not include the value of in-kind assistance programs, such as Medicaid, food stamps, and housing. Yet, it is precisely these programs that have grown the fastest. When expenditures for health care, food stamps, and housing subsidies are compared with the aggregate money-income gap for low-income families in 1974, these expenditures more than fill the gap--specifically, they are equal to 161 percent of this poverty gap.* The point simply is that this growth has made comprehensive reforms less important insofar as "need" is being met to a greater degree than it was when the idea of a negative income tax first surfaced.

3. _The fiscal drain of welfare programs on big cities also tends to be exaggerated_.

The problem of welfare drains on the budgets of "hardship" cities is shown in the Committee Print to be less serious than commonly believed. The Print states that "only 11 States require significant amounts of local [mostly county] spending" for welfare. New York City, Washington, and Denver are the only large _city_ governments with big welfare burdens under the AFDC and Medicaid program (_Committee Print_ p. 16).

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* John L. Palmer and Joseph J. Minarik, "Income Security Policy," in _Setting National Priorities: The Next Ten Years_, ed. Henry Owen and Charles L. Schultze (Washington: The Brookings Institution, 1976), p. 525.

4. Direct state administration is the dominant mode for AFDC.

Thirty-two states have AFDC systems administered by the state government, although it is true that the two largest states (New York and California) have county administration with state supervision.

5. Fraud problems are increasingly being dealt with.

The Committee Print also indicates significant progress through state action to detect and prevent fraud.

> "What limited data we have indicate that States are, more and more, effectively coming to grips with AFDC fraud and instituting policies designed, at least, to expand their capability to identify potentially fraudulent situations. Increasingly, they are detecting and following up on instances of AFDC fraud. At the Federal level, the recent emphasis on quality control has meant a more active Federal role in the area of fraud prevention through a stress on better administration." (Committee Print, p. 262)

Avoid Easy Assumptions About National Welfare Management Systems

In considering the tradeoffs between the comprehensive and incremental reform positions, a strong word of caution needs to be indicated here as regards the often easy assumption of smooth, efficient administration of a single new supersystem for welfare. Recent experience with SSI is instructive. I have serious doubts that an entirely new national administrative structure for all welfare payments could be set up easily and would work well.

We are often too confident about how well centralized bureaucracies can perform exceedingly complex tasks. The administration of a reformed welfare program is no exception. Internal Revenue Service officials have resisted the idea that their agency should be charged with the responsibility for administering a single new system for payments to the poor.

Indeed, any program that aids people who move around a lot, often have interrupted and shifting income flows, and, perhaps, limited reading and computational skills, is bound to be hard to administer.

This administrative problem has another dimension. Management reforms to improve welfare processes and tie programs together are urgently needed now. A preoccupation with legislation for a new super-system will invariably mean that leaders in this field in Washington and the States will not have the time or inclination to address fully these management issues. A comprehensive welfare reform plan will take the rest of this year to design, would probably not be enacted in this Congress, and would require two years of administrative set-up time at the very least. This means that such a system probably cannot be put in place--even if it were the best solution--for five years, more likely six. Serious attention now by top HEW and State officials to the reform of welfare administration is an urgent necessity. Unless welfare programs are well managed and therefore effectively serve those in need, they will not be well regarded. And without general acceptance of the role of these programs, any liberalization is going to be problematical.

Other Reasons for Favoring Incrementalism

A related set of reasons for rejecting the comprehensive replacement approach are more political. We need to look at welfare in light of what has happened in other political systems like that of the United States. To the best of my knowledge, all of the industrial democracies of Europe have multiple welfare systems that have evolved in a manner similar to ours. One could argue that in a pluralistic society there are bound to be multiple and often conflicting welfare goals and, therefore, that only a multiple system (or incremental approach to welfare policy) is suitable. We have a number of different programs because we have had different policy goals and values to take into account in the policy-making process. There is also the fact that welfare--at least the increase and liberalization of welfare benefits--is not popular in the U.S. Public opinion polls clearly show this. Why go through a difficult, controverted struggle over income redistribution if many of the same goals can be achieved in less divisive ways?

Some Incremental Welfare Reforms

Admittedly, statements of this length tend to portray alternatives in quite sharply contrasting terms. The line between incremental and comprehensive welfare reform is a wavy line. Furthermore, the Carter administration in several ways can be said to be already embarked on incremental welfare reform strategies. Moreover, it is possible to devise incremental steps which are quite basic. One could argue, for example, that ultimately converting the food stamp program into a cash supplement would fit into the approach presented here of incremental reforms which build on the existing program framework.

The final section of this testimony briefly describes incremental steps for welfare reform that in my view should be explored further. I begin with food stamps:

(1) Food stamps. The food stamp program reduces disparities in AFDC benefits among the states and is an important method of supplementing the income of the working poor. It will be substantially improved by

removing the requirement that people have to purchase their food stamps as has been proposed by the Carter administration. Under this plan, the food stamp "bonus" will be paid (in food stamps) to all who apply and qualify.

(2) AFDC. Incremental welfare reform should involve revision of the AFDC program, for example, by (a) instituting a national minimum payment level, (b) mandating the coverage of two-parent families with an unemployed head, (c) adopting national eligibility standards, (d) adding an annual cost-of-living adjustment for the national minimum payment level, and (e) moving towards full State administration of AFDC (i.e. abolishing the State-supervised/county administration setup now used by 18 states).

(3) Other Groups of Needy Persons. A number of organizations have suggested that the AFDC program be expanded to include childless couples and unrelated individuals. My view is that this is of lower priority than the steps just indicated. Both groups are eligible for food stamps. Furthermore, they are the most controversial of all actual or potential welfare recipients. Manpower strategies (discussed next) are the best recourse for the people in these groups.

(4) Manpower. Job creation and related manpower programs are an important item on the welfare reform agenda. Here too, the Carter Administration (by greatly expanding public service employment programs targeted on the poor) has already taken important action. Administrative steps to make the Work Incentive Program (WIN) effective and have the U.S. Employment Service find jobs for the heads of welfare families must also be undertaken.

(5) Management Reforms. Some of the changes discussed here are legislative--e.g. national eligibility standards for AFDC and full state-level administration of AFDC. Others are managerial. In the latter group, it should be noted that the Urban Institute has been studying ways to improve the "Quality Control" system under AFDC. I also believe the administration of the AFDC and food stamp programs should be merged and the food stamp program transferred from the Department of Agriculture to HEW. Priority should be assigned to implementing "Quality Control" programs for food stamps and Medicaid and stepping up anti-fraud efforts in all three programs--AFDC, food stamps, Medicaid. Again, the Carter Administration is already working in this area (anti-fraud), especially for the Medicaid program.

(6) Fiscal Relief and Costs. Fiscal relief to state and local governments (as Senator Moynihan has recently proposed) is also a candidate for inclusion on the incremental welfare reform agenda. Among the nation's cities, only New York, Denver and Washington would benefit directly by such a change; nevertheless, better interregional equities could be achieved.

* * * *

In sum, while incrementalism as an approach to welfare reform may be conservative tactically (perhaps reflecting my own past experience), it is not necessarily a conservative strategy. It can be a quite bold strategy. The targetting of more public service jobs on the most needy, and the basic overhaul of both the policies and management of the AFDC and Medicaid programs would have far reaching consequences for human resource policy.

Mr. Fountain. Difficult as it is for us to withhold questions until we complete all of the testimony, we will have to do it because of the limitations of time. We will go on, therefore, to Dr. Williams at this point.

Dr. Williams, please proceed.

STATEMENT OF DR. ROBERT G. WILLIAMS, VICE PRESIDENT, MATHEMATICA POLICY RESEARCH, INC.

Dr. Williams. Thank you very much, Mr. Chairman. I very much appreciate the opportunity to offer testimony before this subcommittee today. I am very pleased to be able to discuss with you the work that my organization is doing to assist the State of Colorado and HEW to develop improvements in the AFDC program.

Like the other witnesses before the subcommittee, I would like to summarize the prepared statement that I have submitted.

I am vice president of Mathematica Policy Research. Among my other responsibilities, I am project director of the Colorado monthly reporting experiment.

The Colorado monthly reporting experiment is a major test of an alternative administrative system in Colorado which is designed to improve both the accuracy and responsiveness of benefits paid to recipients under the AFDC program and, perhaps, other income transfer programs.

In the testimony which I am going to be summarizing here, I would like to describe for you the system that we have implemented on a test basis in Colorado, and summarize the effects of the system on benefits paid to recipients, summarize the impact of the system on recipients themselves, and summarize the impact of the system on administrative functioning and costs.

Mr. Levitas. Mr. Chairman, may I ask that—before we get into the body of Dr. Williams' testimony—since we must go for a vote that we recess? We don't want to miss the elevator this time.

Mr. Fountain. Yes, I think this would be a good time to take a recess and hear Dr. Williams when we come back.

[A recess was taken.]

Mr. Fountain. The subcommittee will resume its session.

Dr. Williams, will you continue?

Dr. Williams. Thank you very much, Mr. Chairman.

Before the subcommittee recessed, I had just completed my introduction and was going to go into a description of the administrative system that we have implemented on a test basis in Colorado and summarize the effects of this system on benefits, on recipients, and on administrative patterns and costs.

I think that the best way to describe the administrative system that we have implemented on a test basis in Colorado is to contrast it with practices under what I would call the traditional AFDC system.

We well recognize that AFDC really is not a single system. It is really 50 systems administered by 50 different States under a common set of regulations, but I think there is enough commonality imposed upon practices by the Social Security Act and by regulation that it is accurate enough today to talk about a traditional AFDC system in terms of administration.

The system that we are testing in Colorado has three basic elements to it—a monthly reporting requirement, what is called a monthly retrospective accounting period, and an automated support system.

The recipients participating in the experiment are required as a condition of eligibility to return to the agency on a monthly basis a simple, but comprehensive, form that includes information required for eligibility determination and grant computation.

This includes such items as earnings income from other sources, family composition, and other eligibility factors—such as the school attendance status of children over the age of 16 years. This contrasts with the traditional AFDC system that has a formal reporting requirement, in terms of requiring the recipients to submit formal written reports, of only every 6 months for recipients in the regular segment of AFDC and every 3 months for the lesser number of recipients in the AFDC unemployed fathers' segment.

Of course, within these 3- or 6-month reporting periods, recipients are supposed to report any changes that would affect their grant either up or down, but many recipients find it difficult either to understand the requirement or to penetrate the institutional barriers that exist in terms of trying to get information like this into the agency and into the grant computation process.

The second characteristic of the system that we are testing in Colorado is what is called a monthly retrospective accounting period. Stated quite simply, this means that the AFDC grant is based on actual circumstances of the recipient during the month previous to payment.

This contrasts with the traditional system in which benefits to the recipient are based on estimates or projections of the needs of recipients in the current month.

The way the traditional system actually works, the current month actually becomes a future month because there are processing lags of considerable length that are involved in computing a grant under the traditional system.

Therefore, what actually happens is that the agency takes information from the recipients and estimates or projects a grant which is based on need of the recipient as estimated for future months. This is done according to a fairly complex set of rules for averaging, estimating, and projecting.

The third component of the system that we are testing in Colorado is an automated support system. As detailed in the very fine Congressional Research Service report, there are various levels of automation that have been achieved by various States.

The system that we are testing in Colorado is completely automated in that it takes information from the recipients on these monthly reports and the computer system, itself, does an editing job on these reports and puts out discrepancies to the eligibility worker. Once the information in the file is complete and consistent, the system goes through to a complete computation of the benefit, a redetermination of the eligibility, production of the check, production of various workload kinds of reports to the eligibility staff and the supervisory staff, and—something that is relatively rare in current AFDC administration—each month it automatically produces an explanation of the grant to the recipient that tells how the grant was computed, and what information reported by the recipient was taken into account in computing that grant.

One purpose of the project in Colorado is to test the impact of this type of system in a systematic way on benefits paid to recipients. I think that the Colorado monthly reporting experiment is almost unique as a demonstration project in the area of welfare policy.

It is unique in the sense that it is a true experiment. It is not simply a demonstration project. What we have done in Denver County is to take a random sample of 10 percent of the Denver County caseload and administer its benefits according to this system with the monthly report, with the monthly retrospective accounting period, and with the automated support system to back up the workers.

We are, then, comparing—in a systematic and statistically reliable way—the benefits paid to recipients under this experimental system relative to the benefits paid to a control group, which is a random sample of another 10 percent of the Denver County caseload.

This gives us very precise and statistically valid estimates of the impact of this type of system on benefits so that it is not just an empty type of claim or a by-guess-or-by-golly type of determination.

The preliminary results that have come out of the type of comparison are that after 8 months of operation of this new system in Denver County the aggregate payments to recipients in the experimental group have been reduced by approximately 8 percent, relative to recipients in the control group that have their payments administered in the traditional way.

I would like to emphasize that this reduction in aggregate payments to recipients was done without tightening eligibility requirements in any way or, in any way, reducing recipients' levels of entitlement to benefits.

The evidence that we have so far in Denver County indicates that this reduction in aggregate payments comes almost entirely from this alternative system's ability to identify ineligible cases as soon as their circumstances change and render them ineligible.

Payments are stopped immediately under this system, whereas under the traditional AFDC administrative system payments may sometimes go on for as long as 2 or 3 months.

The second major finding in terms of the impact of this experimental system on benefits is one that was very surprising to us, and it has major implications for the responsiveness of this type of system to recipient needs.

The second finding is that the experimental system identified many, many more changes in recipient circumstances that required changes in grants than did the traditional AFDC administrative system.

Roughly, on average, looking only at ongoing recipients in the program, the test system identified changes in grants and made changes in grants for about 20 percent of the caseload in an average month. This compares with a figure of 8 percent of the caseload for the control group in which benefits were administered in the traditional manner.

This has substantial implications for accuracy and responsiveness because it indicates that, basically, the traditional system apparently misses many changes in circumstances that should definitely result in changes in grants.

I should add at this point that this proportion—of two and one-half times as many changes in circumstances that are identified—held both for changes that resulted in increases in grants and changes that resulted in decreases in grants. The proportion was comparable for both types of changes.

One major concern in implementing this test project from the beginning has been to assess the impact of this type of system on recipients. We would not have been interested in proceeding with this system, nor would the State of Colorado, had we felt that the overall impact on recipients would be adverse, and if we had felt that it would lead to greater inequities.

Therefore, the system has been designed from the beginning to minimize any kind of potential adverse impact on recipients. There are two basic concerns surrounding implementation of this type of system in terms of its potential impact on recipients.

One of those concerns is that recipients might be unable to comply with the monthly filing requirements that are a part of this system. In other words, that they simply might be harassed off the program even though they are otherwise eligible and otherwise in need simply because they are unable to fill out the form on a monthly basis and get it into the agency.

The second major concern to be dealt with is the retrospective nature of the grants, the fact that grants are based on circumstances as they actually existed in the recent past, rather than some type of estimate of future need of the recipient.

We attempted to deal with these potential problems in the design of the system. Based on the first 8 months of operation in Denver County, we are confident that they are not serious problems if care is taken in implementation of a system like this.

The results are very definitive. Recipients can indeed comply with these types of deadlines, they can submit the forms, and they can complete them accurately with a high degree of proficiency—particularly after an initial learning period of 2 to 3 months.

In the monthly reporting project, as we have implemented it in Denver County, the basic reporting period is a calendar month. Recipients are mailed a form 3 working days before the end of a calendar month and they are to complete the form based on their circumstances during that month.

The first filing deadline is the fifth of the following month. We have found that, in Denver County, 90 percent or more of the recipients, on average, have mailed those forms so that they are received by the agency by the fifth of the following month.

We find that an additional 7 to 8 percent of the recipients submit them by the second filing deadline, which is the 12th, and only 1 or 2 percent of the recipients wait until before the last filing deadline, which is the 20th of the month.

Mr. FOUNTAIN. What do you do about those? Do you continue to pay them?

Dr. WILLIAMS. The date of the payment depends upon when the form is submitted. Therefore, the early payment date under the program is the 16th of the month, which is only 2½ weeks after the end of the reporting period.

In order to qualify for payment on the 16th of the month, the recipients must file by the fifth and must submit any kind of correcting information or documentation—supplementary documentation—to the agency by the 12th.

We find that, in Denver County, most recently 85 percent of all cases are paid on that early payment date. Then if they file later, they slip to one of the later payment dates.

Mr. **Fountain.** Thank you.

Dr. **Williams.** We find, on average, that fewer than 5 percent of the recipients fail to file at all in a given month and, as a result, are discontinued from the program. For these recipients, failure to file seems to be a deliberate act presumably because their circumstances have changed, thereby rendering them ineligible for assistance.

I say "presumably" because we do not have hard evidence on this yet, but the agencies administering this program have been very sensitive to the possibility that people might be harassed off the program, and they have found no evidence that this has been the case.

Moreover, the reapplication rates have been very low under the program and there has been no increase in the number of fair hearings requested. This is the basis for our conclusion, as is the feeling by the agencies that they have been unable to find any recipients that have been damaged by the project.

As I mentioned, the other concern was the fear that this retrospective principle would be unresponsive to recipients' needs. In the Colorado project, we have tried to minimize any impact from this by having a rapid processing schedule.

We tried, from the beginning, to minimize the amount of time between the time covered by the report itself and the time when the check is mailed out. This is down to about half a month for most recipients.

This means that, for most recipients, payment is made very close to the time when the circumstances were reported that are the basis for that check.

We have been concerned about initial applications because people who come onto the program for the first time tend to have a higher instance of emergency needs than other types of cases. In Denver County, we have tried to deal with this by having a current need determination on initial eligibility.

In Boulder County, which is another site for this system, we have made provision for an initial supplemental payment to recipients who are in need of that payment because of the fact that their first month payment, based on the retrospective principle, is inadequate to carry them for the first month of their participation on the program.

A major function of the project was to take a look at the impact of this type of system on administrative functioning and costs. In order to do that, a second phase of the project was included from the beginning in the design. This involved implementing this experimental monthly reporting system on a countywide basis in Boulder County, Colo.

The purpose of doing that was to look at the impact of this system on the administrative structure of an agency and on the cost of administering the program.

There is, of course, a fear on the part of many welfare administrators—and has been from the beginning—that implementation of this type of system with its frequent reporting requirement would result in a manifold increase in administrative costs because there are six times as many reports coming into the agency from recipients.

Therefore, the simple line of reasoning was that this would result in a sixfold increase in administrative costs.

It was to deal with this concern that an automated support system has always been built into the design of this project. We have found in Boulder County that implementation of this type of system will ultimately, we think, result in an increase in administrative costs anywhere in the zero to 10-percent range. In other words, there will be a very modest increase in administrative costs, at most.

To understand why the increase in administrative costs in Colorado even—which is a relatively low administrative cost State—is so small, it is important to take a look at the impact of this system on staffing patterns.

What happened in Boulder County was that there was no increase required in eligibility staff for the given caseload. There was some increase in data entry staff—that is, keypunchers and the like—and some increase in postage costs, printing costs, and data processing costs.

However, these increases were offset by some decreases required in clerical support staff.

You see, this system is more automated than any type of system that we know of that has been implemented to support AFDC administration. The reason is that this type of monthly retrospective reporting requirement facilitates automation.

The current system, as it is presently structured, cannot be as fully automated as the type of system we are testing in Colorado because the current system bases benefits on some types of estimates of recipients' needs in the future; and this, of necessity, requires some kind of human intervention and application of human discretion. In the type of system we are testing in Colorado, the grant is based on actual information provided by the recipient.

This can be automated to a level that simply cannot be attained in the current program.

We believe that administrative costs could be reduced even further if the food stamp program could be administered in the same manner and with the same system. We think that we could use the same basic form to administer both programs.

We think that there could be savings in administrative costs on that basis if we could fold that program into this type of system.

There are other administrative benefits that have been gained by implementation of this system on a test basis. These include an increase in contact between the eligibility workers and the recipients—an increase that has been most constructive for both parties.

One thing that happens is that this system, because of its level of automation, takes away many of the clerical, bookkeeping, and computational functions of the eligibility staff under the current system.

Workers no longer have to compute benefits by hand. They no longer have to transcribe information from one form to another. As a result, they have more time to contact recipients. They have more time to gather information which would increase the accuracy of payments which would increase their understanding of family circumstances and, therefore, enable them to make more referrals of cases to social services.

This is one thing that has been reported in Denver as one of the benefits to come out of this system.

The workers involved in administration of the system also report an improvement in overall job satisfaction. They find that this system is more challenging to run, which is something that they welcome on the whole, but they especially appreciate it because they feel it gives them greater control over their caseloads, and it provides them with more clearcut procedures and more structure for their jobs.

Therefore, we think, based on our experience in operating this project in Colorado, that the system has considerable potential for improving the administration of AFDC, as well as potentially other income transfer programs such as food stamps or some type of national income maintenance program that might be contemplated under welfare reform efforts.

There is potentially a high benefit/cost ratio to implementing the program. Administrative costs in Colorado, for example, represent proportionally only 8 percent of expenditures for benefits.

Therefore, it would take a 12-percent increase in administrative costs to be offset by reduction in benefits of only 1 percent. As a result, the preliminary findings of the project—that aggregate payments are being reduced by 8 percent and administrative costs are increased by no more than 10 percent—would potentially represent a very high benefit/cost ratio for implementation of the AFDC program.

We think that this system works primarily because it recognizes the nature of the recipient population—the fact that the recipient population is very fluid and that there is a very high rate of change in the circumstances of people receiving assistance under the AFDC program.

Unfortunately, many welfare policies have for too long been based on the notion that we are dealing with a stable population on the AFDC program, and that receipt of welfare is a long-term if not a lifeterm proposition.

This is very inaccurate. I think we can see how inaccurate that is by looking at the results that are coming out of the Denver experiment where we have good data on this—probably better than we have had before.

As I mentioned earlier, 20 percent of ongoing cases are experiencing a change in circumstance each month that leads to a change in grant, but this does not account for approvals and discontinuances—new cases and discontinuances—which each account for another 5 percent of the caseload.

About 5 percent of the caseload in Denver is new cases each month. Another 5 percent is discontinued cases each month.

When we total all these figures, we see that 30 percent of the recipient population experiences a change that affects either eligibility or the amount of payment in a given month. This is simply unrecognized by the administrative structure of the present system.

This is why we are seeing the major changes in the amount of aggregate payments under this new system.

As I mentioned earlier, there is a potential for extending this to food stamps. We think it is well that this experience, limited though it is in Denver and Boulder Counties, Colo., has implications for the structure of any future national income maintenance program.

We think that the administrative structure of this program must recognize the fluid nature of the recipient population, and that it must deal with that adequately if it is to be successful.

Therefore, we think that perhaps a monthly retrospective reporting system should be built in if any type of national income maintenance program is to realize the goals of equity and effectiveness, the kinds of goals in which this subcommittee has so properly expressed its concern.

Mr. Chairman, I thank you very much, once again, for the opportunity to testify before the subcommittee. I appreciate your taking the time to hear what we have to say on this project.

Mr. FOUNTAIN. Thank you very much, Doctor.

[Dr. Williams' curriculum vitae and prepared statement follow:]

DR. ROBERT G. WILLIAMS

EDUCATION:

1974	Ph.D., Urban Affairs and Domestic Policies, Woodrow Wilson School of Public and International Affairs, Princeton University
1969	M.P.A., Urban Affairs and Domestic Policies, Woodrow Wilson School of Public and International Affairs, Princeton University
1967	B.A., Political Science, University of Illinois at Chicago Circle
1963-65	Oberlin College

EXPERIENCE/POSITIONS:

1972-	Mathematica Policy Research: Vice President. Project Director, Colorado Monthly Reporting Experiment and Pre-test. Project Director, Denver Income Maintenance Experiment.

Vice President. Directs operations of Denver Regional Office for Mathematica Policy Research.

Project Director, Colorado Monthly Reporting Experiment and Pre-test. Directs design, operations, and analysis of a model administrative system for AFDC being tested in two Colorado counties which is based on monthly reporting of recipient status and automation of most administrative functions. Coordinates design effort with federal, state, and county agencies involved with project; administers daily operations involving about twenty analytical systems, research, and data processing operations staff from MPR; directs research effort, including development of research plan, collection of data, and evaluation of experimental results.

Project Director, Denver Income Maintenance Experiment. Administers data collection and experimental payments operations for 2800 families participating in Denver Income Maintenance Experiment. Directs staff of approximately 100 employees who carry out data collection and payments operations; administers experimental rules of operations; coordinates activities of Experiment with State and County agencies.

ROBERT G. WILLIAMS (continued)

1971	Consultant to the Governor of New Jersey. Carried out two month study of funding and administration of day care in the state. Drafted report which analyzed the State's structure for administering day care and reviewed the failure of the State to take sufficient advantage of Title IV-A funding. Formulated recommendation to re-structure the administration of day care into a single agency, which was incorporated into the Governor's Annual Message and resulted in creation of a new Division of Youth and Family Services for the State.
1969-1971	Executive Director, Governor's Task Force on Welfare Management, State of New Jersey. Directed staff functions of the Governor's Task Force on Welfare Management from its inception in July 1969 to its conclusion in June 1971. Structured agenda of Task Force; hired and supervised staff; administered budget; directed research and analysis; and prepared final reports. Represented the Task Force -- in conjunction with the Chairman -- to the Governor and his staff, key legislators and their staff aides, and various public groups.
1970	Consultant to Mathematica, Inc. Prepared analytical papers for State of Vermont FAP Planning Project, which was to be a state-wide pre-test of a national welfare reform proposal. One paper detailed the impact of FAP on welfare eligibility requirements; the other evaluated the procedure proposed for calculation of state supplementary payments.
1968-1969	Research Assistant, Office of the Governor of New Jersey. On a part-time basis, carried out research and analysis in areas of Medicaid, family planning, welfare and health. Carried out lead responsibility for analysis of State health policies; resulting recommendations incorporated in special message on health by the Governor.

PAPERS:

Colorado Monthly Reporting Experiment and Pre-test: Preliminary Research Results, Mathematica Policy Research: February 1977 (with Alan Hershey and Jeffrey Morris).

"Research Plan for the Denver Monthly Reporting Experiment", Mathematica, Inc., February 1976 (with Alan Hershey and Cynthia Thomas).

ROBERT G. WILLIAMS (continued)

Public Assistance and Work Effort: The Labor Supply of Low-Income Female Heads of Household. Princeton University Industrial Relations Section: Princeton, 1975.

Publications of the Governor's Task Force on Welfare Management:

Report of the Governor's Task Force on Welfare Management. (January 15, 1970).

The Impact of Proposed Federal Welfare Legislation on New Jersey. (June 9, 1970).

Social Services in New Jersey. (April 14, 1971).

Research, Development, and Evaluation in Public Welfare Programs. (April 30, 1971).

A Profile of AFDC Recipients in New Jersey -- Staff Report. (May 26, 1971).

A State Welfare System for New Jersey. (June 2, 1971).

The Work Incentive Program in New Jersey -- Staff Report. (June, 30, 1971).

PREPARED STATEMENT OF DR. ROBERT G. WILLIAMS, VICE PRESIDENT, MATHEMATICA POLICY RESEARCH, INC.*

Introduction

Mr. Chairman and Members of the Committee, I appreciate this opportunity to appear before you today to discuss the work my firm has been doing to assist the State of Colorado and the Department of Health, Education and Welfare in improving the administration of public welfare programs. We believe that this work has important implications, not only for the operation of current income transfer programs such as AFDC and Food Stamps, but also for the design and implementation of future programs that might be developed as a result of current welfare reform efforts.

For the past two years, we have been involved in the development and operation of the Colorado Monthly Reporting Experiment. This project is a major test of an alternative administrative system intended to improve the accuracy and responsiveness of payments to recipients in the AFDC program.

Preliminary research results from the project indicate that it has been remarkably effective in attaining these goals. There is strong evidence that this alternative administrative system, based on a monthly retrospective reporting principle, has increased the responsiveness of the program to recipients by identifying and reacting to many changes in recipient circumstances that are missed under the traditional administrative system. One finding indicates that in a given month the monthly reporting system processes grant changes for two and one-half times as many cases as does the traditional AFDC system. This implies strongly that the traditional AFDC system misses many changes in recipient circumstances and is unresponsive to their changing needs. There is substantial evidence that the monthly reporting system is more accurate as well. A direct comparison of payments to cases in this new system and payments to a comparable control group in the traditional system shows that monthly reporting reduces payments by about 8 percent. This result is attained without any tightening of eligibility standards or reduction of benefits to eligible families. The monthly reporting system apparently identifies ineligible recipients as soon as their status has changed, and curtails payments immediately rather than after the lags of as much as several months which often occur under the traditional system. These goals have been attained with only a negligible increase in administrative costs, which are greatly overshadowed by savings in benefits.

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*Opinions expressed are those of the author and do not necessarily represent the view of sponsoring agencies.

These preliminary results offer considerable encouragement that substantial improvements can be made in the administration of our income transfer programs serving needy families. In the remainder of my statement, I will be describing the nature of the Colorado project in more detail, reviewing the specific impact of the monthly reporting system on the responsiveness and accuracy of benefit payments, describing the impact of the system on recipients, and summarizing the effects of the system on administrative patterns and costs.

Description of Colorado Monthly Reporting System

To present an understandable description of the monthly reporting system being tested in Colorado, I would like to contrast its features with those of the administrative system traditionally used in most areas of the country in determining eligibility and computing benefits for the AFDC program. Although there are differences in detail in the manner that States and counties administer AFDC, there is enough similarity in broad principles that it is accurate enough to refer to a "traditional AFDC system." Comparison of the monthly reporting system in two Colorado counties with the traditional AFDC system used in the rest of Colorado is the source of information on monthly reporting's impact on benefits, recipients, and administrative patterns and costs.

The monthly reporting administrative system developed in Colorado consists of three basic elements: 1) a monthly reporting requirement; 2) a monthly retrospective accounting period; and 3) an automated support system. Under this experiment, recipients must mail in a simple but comprehensive form each month as a requirement for continued eligibility. On this form, called a Monthly Status Report (MSR), recipients are required to report their income, household composition, and other relevant eligibility factors such as school attendance status of children over the age of 16. This monthly reporting requirement contrasts with the much less frequent formal reporting schedule used in the traditional AFDC system. The traditional system requires the completion of forms only every six months for recipients in the regular segment of the AFDC program and only every three months for the smaller number of recipients in the unemployed parent segment of AFDC. Under the traditional administrative system, recipients are, of course, instructed to report changes in circumstances that take place within the intervals between formal reports. However, for a variety of reasons, this informal reporting requirement is often difficult for recipients to interpret and the agencies to enforce. Moreover, it is often difficult for recipients to penetrate institutional barriers to report a change and to be sure that agency staff will take the proper action upon any such report.

The monthly retrospective accounting principle can be simply described as computation of each month's grant based on actual circumstances of the recipient in the month prior to payment. In the case of the Colorado Monthly Reporting Experiment, recipients in the calendar month reporting cycle file a Monthly Status Report detailing their actual circumstances for a given month by the 5th of the following month. The data on the Report, as verified and confirmed by the agency, serve as the basis for their next grant payment. In the traditional AFDC administrative system, however, grants are based on the agency's estimate of a recipient's current need, which is referred to as a prospective accounting principle. Thus, recipients' payments are based on their needs for the month in which the payment is made. Administrative processing lags require that this payment actually be estimated well in advance. Moreover, the length of time between formal reports means that the agency must estimate individual recipient needs for more than six months in advance for most AFDC cases. These estimates, which serve as the basis for payment during that period unless subsequently altered by a recipient-initiated report of change, are computed according to an elaborate set of rules for projecting, averaging, and predicting.

In the Colorado Monthly Reporting Experiment, the Monthly Status Reports filed by recipients provide the input for an automated support system for the project. This support system performs many clerical and bookkeeping functions which traditionally consumed the time of eligibility workers. Upon receipt by the agency, data from the Monthly Status Reports are entered directly into a computer processing system. The system begins by editing the Monthly Status Reports for completeness and consistency and issuing reports of edit problems to eligibility workers. The system also redetermines eligibility; computes grants; produces reduction and discontinuance notices to recipients; generates checks, check registers, and Grant Explanations to recipients; produces case status reports for Technicians and their supervisors; and provides a management summary report of caseload status at the end of the processing cycle. This level of automation contrasts sharply with the level attained in the traditional AFDC system. Although the States and counties vary in the level of automation of administrative functions, the traditional system is characterized by a heavy reliance on manual processing for such functions as eligibility redetermination, grant computation, and transfers of information from form to form.

Perhaps the most important point to be made in describing this difference is that the traditional AFDC systems cannot reach the levels of automation possible under the monthly reporting system because of inherent limitations caused by traditional use of a prospective accounting period and less frequent reporting periods. Since under the traditional system eligibility determination and grant computation require projecting future needs based on a combination of actual past data and recipients' estimates of future needs, human discretion is required to carry out these functions. The data are too imprecise and the rules too ambiguous to permit eligibility determination and grant computation from raw data supplied by the recipient. In the monthly reporting system, however, actual data provided on the Monthly Status Reports is used directly by the computer to make these determinations.

Effects of the Colorado Monthly Reporting System on Benefits

The Colorado Monthly Reporting Project is unique among tests of new administrative features in public welfare programs in that it is a true experiment: it provides for a systematic, statistically valid determination of the results of implementing the monthly reporting system. In Denver County, which is typical in most respects of many other urban areas in such terms as socioeconomic composition of the caseload and administrative conditions, ten percent of the caseload (about 1200 cases) has been randomly assigned to the monthly reporting system. Reporting patterns of the monthly reporting group and payments to its members are being compared in a rigorous way to the reporting patterns and payments of a control group in the traditional AFDC administrative system. This control group, like the monthly reporting group, consists of an additional ten percent of the Denver County caseload which is also selected randomly.

Preliminary results from the first eight months of operation in Denver County indicate that the higher frequency of reporting under the monthly reporting system, along with the principle of basing grants on actual circumstances, has resulted in substantial reduction in benefits. Cases in the monthly reporting system received about eight percent less in payments than did cases in the traditional system at the end of this period. This reduction came about without any tightening of eligibility standards and apparently without denying payment to any eligible household. Rather, the reduction in payments seems to have come about primarily because of a reduction in the caseload of a corresponding eight percent. Data from the project suggest that this reduction results from the ability of the monthly reporting system to identify families as soon as changes in their circumstances make them ineligible. Payments to ineligible households are therefore curtailed immediately under the monthly reporting system, whereas frequently a lag in stopping payments occurs in the traditional system.

One of the more surprising and significant findings from this project is that the monthly reporting system has processed several times more grant changes for its caseload than the traditional system for control cases. Even though the two groups of recipients are statistically identical, operation of the monthly reporting system has resulted in computation of grant changes for approximately twenty percent of ongoing cases each month, whereas operation of the traditional system has resulted in computation of grant changes for only about eight percent of the caseload per month. The difference in frequency of grant changes applies equally to both increases and decreases in grants. This finding suggests that under the traditional AFDC system many changes in recipient circumstances are simply missed. Apparently at any given time under the traditional system, an uncomfortably large proportion of AFDC recipients are receiving insufficient assistance to meet their needs and are therefore underpaid, while another large proportion are receiving too much assistance for their needs and are therefore overpaid. The magnitude of these differences is larger than we would have expected, and may help to explain why the AFDC Quality Control process consistently finds unacceptable levels of error in the program. Moreover, even Quality Control findings do not fully document the level of inaccuracy in the traditional system. Quality Control rules tend to exclude from error statistics many mispayments if prescribed recipient reporting periods and administrative action periods have been complied with. Increased frequency of grant changes under the Monthly Reporting Experiment imply strongly that wider implementation of the system being tested in Colorado might substantially improve the level of accuracy and responsiveness of payments in the AFDC program.

Impact of the Colorado Monthly Reporting System on Recipients

There has been widespread concern over the potential impact of this project on recipients. The first concern is that recipients might be unable to meet the filing requirements imposed upon them and that many legitimately in need of assistance would thereby be forced off the program. A second concern is that the retrospective nature of the system, in which grants are based on actual past circumstances, might prove to be unresponsive to recipients suffering sudden setbacks, especially applicants for assistance who frequently have emergency needs. In the Colorado Monthly Reporting Project, careful attention has been given to these concerns from the beginning. Results from operations thus far support the conclusion that a properly designed monthly reporting system does not adversely affect eligible recipients of assistance and that, on balance, the system seems to be more responsive to recipient needs than does the traditional system with which it is being compared.

In the monthly reporting system, recipients must file a mail-in, postage-paid Monthly Status Report each month in order to retain eligibility and provide data for computation of the next payment. The Monthly Status Reports are mailed to recipients three working days before the end of the monthly reporting period. If MSR's are received by the 5th of the following month, the recipient receives payment on the first possible payment date, which is the 16th. Subsequent filing deadlines of the 12th and 20th correspond to second and third payment dates of the 23rd and 30th, respectively. The forms have been designed for comprehensiveness and ease of completion. Recipients must only circle "yes" or "no" responses to individually specified questions, and fill in amounts of income received. No arithmetical computation is required of recipients; they submit only the raw data required for automated calculation. However, recipients must send in paystubs as verification of earnings and provide suitable documentation for other income and changes in household composition.

Experience with the Colorado Monthly Reporting System clearly demonstrates the ability of AFDC families to complete the required monthly reporting forms at an acceptable level of proficiency and to submit them promptly. Generally, more than ninety percent of families who file do so by the first filing deadline, which falls on the 5th of the month -- about eight or nine days after the forms are mailed to the recipients by the agency. Most of the remaining families who file do so by the second deadline of the 12th, with only one or two percent submitting forms only in time for the third deadline of the 20th. The level of accuracy on the completed forms is high, with the majority of them suitable to serve as the basis for eligibility redetermination and grant computation directly with no intervention by agency staff.

Recipients demonstrate a definite learning curve in form proficiency. Agency staff noted a certain rate of error in completion of the forms during the first two months of the project. By the third month, however, the level of proficiency improved substantially. The ability of recipients to cope with the forms is undoubtedly aided by their monthly experience in completing them. Because recipients must fill out report forms more frequently than in the traditional system, they become more familiar with them and find it easier to comply with the filing requirements.

Fewer than five percent of families normally fail to return a Monthly Status Report by the final filing deadline and are therefore discontinued. These families appear to place themselves in this category deliberately since they ignore three separate warnings of the consequences for non-filing. The first warning is prominently displayed on the Monthly Status Report. Second and third warnings, which are formal notices of discontinuance, are sent after non-receipt of the Monthly Status Report on the 5th and the 12th, the first two filing deadlines. Although the agencies involved in this project have been very sensitive to the possibility of adverse effects on recipients, no evidence has been found that any otherwise eligible recipient has been forced off AFDC by the filing requirements of the monthly reporting system. The rate of re-application for assistance has been low and the number of hearings requested has been about normal for the proportion of the caseload involved.

The retrospective payments feature of this monthly reporting system has attracted much scrutiny because of the fear that it could leave recipients short of critical resources when they were faced with an abrupt decline in income. Failure of the monthly reporting system to meet "current need" can be legitimately considered as a potential disadvantage. To minimize this problem, considerable effort was devoted during the design phase to maximizing the processing speed of the system, thereby minimizing the lag between the occurrence of changes in circumstances and receipt of a payment reflecting those changes. The rapid processing schedule has been successful: more than eighty percent of recipients consistently receive payment on the early payment date, the 16th of each month, which is only a half month after the end of the reporting period. There appear to be very few recipients who are adversely affected by the retrospective aspect of the system. On those limited occasions when recipients are caught short by the system, Food Stamps are made available with no purchase requirement to supplement other sources of income. New cases receive special treatment because of the frequency of emergency needs. Initial grants are calculated on a current need basis if the retrospective grant determination falls short.

Many persons exaggerate the problems created for recipients by a retrospective system since they compare the actual workings of the monthly reporting system to an ideal rarely approached by the traditional system. Although the traditional system is theoretically intended to meet current need at all times, in practice this ideal is severely compromised by long delays in processing grants. It is compromised further by vagaries of the system that result from the lack of clear procedures, reporting requirements that leave too much agency discretion, and the absence of safeguards to insure that information informally supplied by the recipient will be properly processed. It is our judgment, based on our experience with the monthly reporting system in Colorado, that any disadvantages for the recipient caused by the retrospective principle for computation of grants are more than compensated by the superior responsiveness of the system to changing circumstances and the certainty that recipient reports of such changes will be reflected in adjustments to grants.

Impact on Administrative Functioning and Costs

Many welfare administrators have been attracted to the concept of monthly retrospective reporting because of its obvious potential for increased accuracy of payments, but have been deterred by the fear that virtually a six-fold increase in written reports by recipients would result in nearly proportionate increases in administrative costs. To test this prospect, and to assess other effects of the monthly reporting system on administrative functioning, a second phase of the Colorado Monthly Reporting Experiment is a county-wide implementation of the system in Boulder County. Preliminary data from this phase indicate that any increases in administrative costs caused by operating the monthly reporting system are likely to be negligible and that there are many desirable administrative effects of the monthly reporting system.

As I have noted earlier, a characteristic of the traditional AFDC system is a heavy reliance on manual processing. In the usual mode of program administration, a large amount of eligibility staff time is spent performing clerical duties such as computation of grants and filling out forms, often copying substantial amounts of information from one form to another. In contrast, the monthly reporting system developed for Colorado takes full advantage of the potential for automation that is inherent in a monthly retrospective system. Recipient data are entered directly into the computer for machine editing. Once the MSR information is complete and consistent, the computer performs the grant calculation and produces the necessary forms, notices, grant explanations, and checks (among other functions). Because so much of the clerical workload is automated under this system, the increased information flow from recipients can be handled by, at most, the same level of eligibility staff as in the traditional system. It appears that there is some increase required in data entry staff, computer time, postage, and printing costs, although this increase is partly offset by a decrease in the amount of clerical support time required. Our best estimate of the ultimate impact of the system on administrative costs, then, based on several months of operation in Boulder County, is a net increase in the range of zero to ten percent. We believe that these figures may even be upper range estimates of the impact on administrative costs elsewhere since Colorado's level of administrative costs per AFDC case are well below the national average. Thus there might be more available resources to support the system in other jurisdictions and the net impact on administrative costs might be even less. Moreover, there exists a clear potential to expand the monthly reporting system to accommodate a joint administration of AFDC and Food Stamps through the use of a single reporting form and processing system. Exploitation of this potential would most likely bring about a reduction in overall administrative costs through the reduction of duplicate transactions and automation of Food Stamp administrative functions.

Eligibility workers participating in the experiment have noted a number of administrative advantages gained from the monthly reporting system. One of the most significant advantages is increased constructive contact between workers and recipients. The high level of automation in the system has freed workers from many routine clerical tasks and focused their efforts on obtaining information from recipients and processing the monthly report forms. Workers administering the monthly reporting system in Denver County estimate that their contact with recipients has increased by as much as fifty percent relative to the traditional system. This has permitted the workers to become more aware of recipient circumstances, further improving the accuracy of payments as well as increasing the likelihood that recipients will be referred to needed social services.

The monthly reporting system has also had the beneficial effect of clarifying the respective roles of eligibility workers and recipients. For the first time, recipients have clear-cut, unambiguous requirements with which they must comply, as well as a reliable channel for reporting changes in circumstances. (In the monthly reporting system, recipients can even verify that information has been processed correctly. They receive computer-printed grant explanations with each check, a source of information that is almost non-existent in the traditional system.) Similarly, workers have the clear obligation to process the reported information, obtain supplemental data from the recipient if necessary, and ensure timely issuance of the grant.

Eligibility workers express a higher degree of job satisfaction under the monthly reporting system. They find their jobs more demanding because of the absolute nature of deadlines and the need to learn certain new skills. However, this very challenge contributes to their feeling of greater satisfaction, as does the better organization of their daily responsibilities, and, most of all, the greater sense of control over their caseloads.

Conclusion

The results of the Colorado Monthly Reporting Experiment, while not yet complete, offer considerable encouragement that implementation of a monthly retrospective reporting system similar to that tested in Colorado would represent a major improvement in the administration of the AFDC program. Preliminary estimates from the project indicate that grants to families would decrease about eight percent due to the greater accuracy of the system, and that any increase in administrative costs would be no greater than ten percent. It is important to realize in considering these results that it takes a twelve percent increase in administrative costs in Colorado to offset a one percent decrease in benefits, so that any additional costs of operating a monthly retrospective reporting system would be offset by only a fraction of the reduction in grants. The remaining reduction in grants would thus represent a net savings in total program operating costs. Figures of this magnitude lead us to expect a very high benefit-cost ratio in implementing this type of system elsewhere.

The system tested in Colorado has had a major impact on program administration because it gives adequate recognition to the high rate of change in circumstances within the recipient caseload. Implicit in the opposition to frequent reporting requirements for welfare programs is the persistent myth that AFDC caseloads are relatively static, and that receipt of AFDC is a long-term, if not a life-term, proposition for most recipients. Although serious research on welfare programs has consistently contradicted this perception, it remains the basis for many policy decisions. In the Colorado Monthly Reporting Experiment, however, fully thirty percent of the AFDC caseload experience a change in circumstances significant enough to affect their eligibility for welfare or the amount of payment during each month. More specifically, twenty percent of the ongoing cases require a change in grant, while five percent of the cases are discontinued and another five percent are added to the caseload. This finding provides graphic evidence of the extreme fluidity in the financial needs of AFDC caseloads, and suggests that frequent reporting and rapid processing of payments are necessary if administration of the program is to be accurate and responsive.

These findings, then, are not relevant only to AFDC, but extend by implication to the administration of other programs serving low-income households such as Food Stamps and any national income maintenance program contemplated under welfare reform. The potential for improving the administration of the Food Stamp program utilizing this type of system is particularly intriguing since there is substantial similarity between the recipient populations of the AFDC and Food Stamp programs. Recent efforts to simplify the provisions of the Food Stamp program through implementation of a standard deduction would make a monthly retrospective reporting system even easier to design and implement for that program. With this type of system, moreover, the administration of the two programs could be integrated and markedly simplified through the use of a common form, comparable procedures, and compatible filing schedules. This would be a boon to those recipients who obtain benefits under both AFDC and Food Stamps since they would be faced with a single form and a single process for obtaining both types of benefits. It would also substantially reduce administrative costs for disbursing benefits to joint recipients of the two programs.

In our view, findings from the Denver Monthly Reporting Experiment are crucial to welfare reform considerations as well. Congress may soon be considering proposals for some type of national income maintenance program. It should be clear by now that a program with the noblest objectives can still fail if its administrative structure is inadequate. It is therefore very important that any administrative design take full account of the fluidity of recipient circumstances documented in the Colorado Monthly Reporting Experiment. Failure to do so would most likely lead to the same types of problems that plague the administration of AFDC, such as lack of responsiveness to recipient needs, and persistent underpayments and overpayments. Implementation of an unresponsive program would be extremely detrimental to the States and localities, as well as to recipients, for these jurisdictions would be responsible for remedying any lack of responsiveness in a national program through local programs of emergency assistance. Thus, we believe that the concepts of monthly reporting and retrospective accounting should be considered carefully in the course of drafting legislation and formulating the administrative design for a national income maintenance proposal. These concepts can help such a program to attain more closely the goals of fairness and effectiveness in which this committee has so properly expressed its concern.

Mr. **Fountain.** I want to thank all of you for your very informative statements, which I am sure the subcommittee will very carefully consider in reaching its conclusions and recommendations.

I might say that Congressman Horton, the ranking minority member of this committee, is Chairman of the Federal Paperwork Commission. I ran into him in the hall and suggested that while all of us are very much concerned about the elimination of paperwork—a problem about which small business, in particular, complains—we ought to be very careful that in our zeal for eliminating unnecessary and duplicative paperwork, we do not eliminate paperwork that is absolutely essential to a proper and cost-effective administration of these programs.

Dr. Bernstein, I want to thank you for a very candid statement on the very serious problems which have occurred in New York State, and the steps your department has taken to remedy them. I have several questions for you. I will then yield to Mr. Levitas before questioning the other witnesses.

You noted that the AFDC caseload doubled in the State and more than doubled in New York City during the prosperous years of 1965 to 1970. This would suggest, offhand, a breakdown in program administration and control.

With respect to the city, however, was this not also a period in which New York City was continuing to lose jobs and middle-income taxpayers? If so, to what extent do you think this trend would have legitimately affected the AFDC rolls?

Dr. **Bernstein.** New York City was losing some jobs in that period, but not very many. The big loss in jobs came after 1969.

Second, the unemployment rate in New York City declined from about 6 percent at the beginning of that decade to 3 percent in 1969.

Indeed, I returned to New York City from 7 years in Washington in 1969. New York is my home. As I walked up and down the streets, at that time—Madison Avenue, Third Avenue—one of the things that fascinated me was the number of signs in the windows saying, "Help Wanted."

You would see signs in the subway saying that anyone with a high school education or equivalent could apply for certain transportation jobs at salaries of, as I remember, $4,600 plus fringe benefits, and promotion opportunities. There were other jobs being advertised.

Actually, our unemployment situation in New York in 1969 was at as low a level as you can expect it to be.

I think the reasons lay in certain sociological trends. This was the period in which you had a very significant increase in the percentage of female-headed families in New York. I do not happen to recall the precise figures. I have them in various articles that I have written, but there was a very large increase and particularly among minority groups in the percentage of female-headed families.

It was a period of a rather loose administration in New York. I think there was an attitude that stemmed from humanitarian springs to help these people because they had been discriminated against—and, indeed, they had been.

As I indicated in my statement, it was the period of the self-declaration which, whatever the originators of that technique had hoped for, simply did not work in New York City, and did not work too well in some other parts of the State.

There was no verification of the data that the clients presented. There was no checking to determine that, in fact, they lived where they said they lived.

All of these things combined, I think, increases the caseload greatly.

Mr. FOUNTAIN. I was amazed to learn that it is possible for an AFDC mother with three children to remain on welfare and receive some cash supplementation until her annual earnings reach $29,000. In addition, she would remain eligible for medicaid assistance.

Do you know of actual cases where an AFDC mother has earned as much as $29,000, or even $20,000, a year? If so, would you illustrate by use of a hypothetical case how this could occur under the 1967 act to which you refer?

Dr. BERNSTEIN. Let me say that I do not know of a specific case of a mother earning $29,000, but I do know of a specific case of a mother with one child—the $29,000 illustration is a mother with three children—working, indeed, for the State government who was earning about $14,000 a year.

She was picked up in one of these matches and so the case was looked at. In fact, she had the legal right under the provisions of the law to obtain a small benefit. She had one child. The child was in day care.

When you did all the deductions, when you deducted 30⅓ of her income from her gross income, then her work expenses—taxes and child care—she was, indeed, entitled to a small cash grant.

I am not sure I have these figures with me, but I can tell you, Mr. Chairman, that we did work all of this out. We did a number of examples and we have submitted them in testimony which Commissioner Toia presented last year and again this year to the Senate Finance Committee in connection with their hearings on welfare reform.

If you like, I will be glad to send that testimony to you.

Mr. FOUNTAIN. We would be delighted to have it.

[The information referred to follows:]

STATE OF NEW YORK DEPARTMENT OF SOCIAL SERVICES

MEMORANDUM

Form DSS-324 (Rev. 11/65)
Formerly BOA-100

TO: Blanche Bernstein **DATE:** September 8, 1977

FROM: Caryn Schwab CMS **SUBJECT:** $29,000 Income - AFDC Four Person Family

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In your article, "What Is This Thing Called The Welfare Mess?," you stated that an AFDC mother with three children could remain on welfare with a small supplement until her income reached about $29,000 ($28,600) annually.

For your information, I spoke with Jack Hickey and the calculations for this income figure are as follows:

Monthly Income and Deductions

Gross Income ($550 Weekly)	$2,365
$30 plus one-third Disregard	808
Sub-Total	1,557
Federal Taxes	555
Sub-Total	1,002
State Taxes	177
Sub-Total	825
Social Security	142
Sub-Total	683
Lunch and Carfare	40
Sub-Total	643
Childcare Expenses	215
Net Monthly Income	$ 428

Needs

Monthly Basic Allowance	$ 258
Monthly Shelter Allowance	218
Total Monthly Grant	$ 476
Monthly State Supplement	$ 48

"WHAT IS THIS THING CALLED THE WELFARE MESS?"

By Blanche Bernstein

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WHAT IS THIS THING CALLED THE WELFARE MESS?

. . . .

Neither Federal nor local efforts have produced an adequate welfare system. But change, and improvement, are still possible.

. . . .

by
BLANCHE BERNSTEIN

The welfare system is complicated. There can be no argument on that score. It is shaped and controlled by Federal law and regulation, state law and regulation, and administered in New York State by the local units of governments under local procedures designed to make clear to the individual workers in the numerous welfare centers what the Federal and state regulations mean. And, in the effort to provide incentives to work and in a search for equity of treatment for current and potential clients, a bewildering variety of rules and expections have been established, which no worker can easily keep in mind. Furthermore, the clients [redacted] constitute a heterogenous group, some with income, some without, some living in an intact family, some with a single parent, some living with a relative who is not on public assistance, and some with a grandparent who may be on the Federal Supplemental Security Income program (SSI), some with special needs, some without. Therefore, a series of manuals for reference have been developed, and so far, these have been only more or less satisfactory. And while the system seeks equity in dealing with small, sometimes even trivial matters, it embodies the glaring inequity of less favorable treatment for the intact than for the female-headed family, and in some most important matters, such as eligibility for medicaid or free day care, more favorable treatment for the public assistance family than for the low-income family.

. . . .

Blanche Bernstein is Deputy Commissioner of the New York State Department of Social Services, Income Maintenance Division.

. . . .

Despite its complexity, the system does provide cash assistance in the amount of almost $2.2 billion to almost 1.5 million persons in New York State, including just under one million in New York City. And the rates of ineligibility and of over or underpayments which were very high a few years ago have come down. In 1973, 18 percent of welfare cases were in fact ineligible for any cash benefit and 28 percent received overpayments; in the first half of 1976, ineligibility in the State reached 8.5 percent and overpayments 20 percent. The statewide figures, however, cover a wide range of about three percent ineligibles outside of New York City but still 10.5 percent in the city, a high level. And overpayments, though less than a few years ago, still mean a waste of tens of millions of dollars. The food stamp program provides an additional $325 million per year in bonus value of food stamps to over 1.5 million New Yorkers including both public assistance recipients and other low income families and individuals.

When account is taken of the bonus value of food stamps available to all public assistance recipients, and utilized by the vast majority of them, of free medical care valued for this purpose at the average expenditure for a family with an income equal to the Bureau of Labor Statistics lower level of living, and of the cash grant, the gross income equivalent of the welfare package is about $8,000 for a family of four, or about 80 percent of BLS lower-income-level standard. In other words, the welfare standard is substantially above the poverty level, currently estimated at about $5,700. Indeed, one would need a job paying close to $4.50 per hour to earn the equivalent of the welfare package in a 35 hour work week. Thus, it is charged that the availability of welfare payments at this level is a disincentive to work. Complexity, inequity, disincentives, ineligibility, over and underpayments and outright fraud—these are among the reasons that the welfare system is so frequently called the welfare mess.

Welfare's Critics

But it is necessary to examine the issue more closely to delineate the groups who call it the welfare mess and why. For there are those who think the system is a mess because it costs too much and those who think it's a mess because the client does not get enough or at least not everything he or she is entitled to get. There are those who hope to use welfare reform as the device for redistributing income on a greater scale than can be accomplished under the present system and those who think the present system already does too much redistributing of income or redistributes it to the wrong people (i.e., those who are ineligible). There are those administrators of welfare programs who hold the messy system to blame for high ineligibility and error rates, and those who think the present system can be administered reasonably efficiently. There are those who think it's a mess because of the financial burden it places on the states and particularly on the major cities and county governments and those who think—still—that welfare is a local responsibility or, at least a responsibility which must be shared between the Federal and state governments. There is the welfare recipient who has to work his or her way through the local bureaucracy with its maze of rules and regulations who may think the grass is greener on the Federal side of the mountain and there are those who know they have more clout on the local scene than they are likely to have in Washington. Finally, there are those who think it's a mess because of what they have been reading in the newspapers for some years about welfare abuses in New York City.

What do those who call for welfare reform hope to accomplish and what are the chances of their doing so? Do we need "welfare reform" or can the system be improved to the point where it can regain the confidence of the society which on the whole wants to provide for those in need?

Since the late sixties, beginning with the Family Assistance Plan proposed by the Nixon Administration and including the massive work of the Joint Economic Committee's Subcommittee on Fiscal Policy under the direction of Congresswoman Martha Griffiths, a great deal of effort by government, academic and research institutions has been devoted to the development of proposals which can be characterized as negative income tax or guaranteed income plans. In brief, these are designed to provide some minimum cash benefit for those without any or with limited income and to allow for the retention of a portion of earned, or unearned income, above this minimum up to a break-even point generally set at about $7,000–7,500. All such plans provide for Federal funding and administration. It is unfair to the prodigious intellectual effort which has gone into the development of these proposals to deal with them briefly. Nevertheless, having made my apologies, I must state that, in my view, they contain serious flaws which will prevent achievement of the objectives set forth for them—elimination of the complex Federal, state, local relationship—simplicity of administration—greater dignity for the recipient—assurance of an adequate minimum income—and a reasonable cost.

A National Standard?

In a country as varied as the United States, where the same standard of living may cost half again as much in one place as in another, and where, historically, the acceptable standard itself can vary greatly, it is not possible to set a national standard for welfare which will fit Mississippi and Arkansas on the one hand, and New York and Massachusetts on the other. We have experience with the Federal Supplemental Security Income Program, which replaced the Federal-state programs for the aged, blind and disabled. A national standard has indeed been established for SSI—it is $2,000 for the single individual living independently or about *$800 below* the poverty level. It has been deemed inadequate by New York and 24 other states; all these states supplement the Federal payment in varying amounts; in New York, the state cash supplement brings the benefit up to the poverty level and the addition of food stamps and medical assistance brings it over that level. When all the accounting is done—and let no one think the accounting is simple—the State of New York and its localities are contributing about one third of the cost of the cash benefit; less, of course, than the 50 percent they contributed prior to federalization of the program on January 1, 1974; but still, one third is a large portion. So we do not have a national standard for the aged, blind, and disabled residing in their own homes. We have one payment level to the recipients in 25 of the 50 states and 25 different payment levels in the other 25 states. Further, in this latter group, some make distinctions, between the aged, blind, and disabled, for example, in contrast to the federal practice. We have not eliminated two of the three levels of government from involvement in the program in half the states—and these are the most populous states—nor have we even simplified the fiscal relations between the three governmental levels in terms of allocating the costs for the program. Moreover, we have complicated the lives of the recipients who frequently have to shuttle back and forth from the district Social Security office to the local income maintenance center with a variety of forms and notices of acceptance or rejection.

In sum, unless the income benefit is set at a very high level, the federalization of welfare through a negative income tax or guaranteed income approach will not lift the burden of welfare costs from the states or the cities and especially not from New York State or City, neither of which will find it politically feasible or socially desirable to reduce its welfare standard substantially. Further, it will not reduce total costs to the society. Estimates of the additional costs of the various proposals which have come from one or another responsible source range from $15–25 billion per year, a sum which might satisfy those who want to redistribute income but not likely to gain a consensus among the electorate.

And yet, the burden of welfare costs does not rest evenly on the various states and cities in the country. New York City has traditionally attracted the downtrodden and the poor. In the framework, however, of its current economic and financial problems and its high rate of unemployment, a crisis it shares with the whole of the Northeast, it is no longer the gateway to reasonably rapid upward progress. The city and state do need more help from the Federal government in meeting welfare costs. Without it, the continuing burden of high taxation will exacerbate New York's problems. Indeed, welfare reform among many who propose it means simply that the Federal government should absorb all or an increasing share of the costs. But such help can be arranged short of going the federalization route and without enormous additional costs to the society as a whole.

The Federal Role

Currently, in New York and in many other states, the Federal government contributes 50 percent to the cost of welfare payments to the Aid to Families with Dependent Children program, which basically benefits the female headed family but also families where the father is disabled, or fully or partially unemployed. It does not contribute at all to the Home Relief program, which serves working poor families or individuals and childless couples. What is needed is an increase in the Federal contribution to AFDC from 50 to 75 percent and a similar contribution to the Home Relief program. Such a change would reduce the burden on New York State and its localities for the welfare program by about $700 million, including a saving for New York City of about $250 million. It might even mean more of a saving for New York City and the other local governments if the state, relieved of part of its present burden, decided to pick up a larger share of the combined state-local costs. Such a change in Federal participation would be in the normal progression evident over the last four decades of an increasing Federal contribution to welfare programs. If the Congress and the President were not prepared for so large and so permanent an additional commitment, it could tie the increase in Federal participation to some rate of unemployment in the state, say between six and seven percent, increasing the Federal contribution when unemployment exceeded this level and decreasing it when it became clear that unemployment had declined to a lower level.

Local Improvements

If welfare reform in the sense of a major change in the structure of the system such as represented by the negative income tax proposal or by federalization is not the answer to the welfare mess, are we without any means to improve the situation? My answer is no—there is much that can be done through improved administration and relatively simple changes in the law, as well as through an increased Federal contribution to the costs.

The fact of the matter is that in New York State, and especially in New York City, the administration of the welfare program during the sixties and early seventies left much to be desired. Indeed it could be characterized as loose. It was during the years 1965 to 1970, a period of rising employment and decreasing unemployment, that the AFDC and Home Relief caseload in the state doubled, reflecting mainly the more than doubling of the caseload in the city, where it rose from 437,000 to 963,000 persons. These were the years of the "self declaration"; that is, the applicant filed a form indicating need for assistance which was accepted with little investigation of its accuracy—of the mail recertification for eligibility, again a statement by the client which was not verified by the welfare department—of the separation of income maintenance from service functions, and the organization of the welfare centers in such a way that the client did not deal with any one worker or one group of workers and no one worker or group of workers had responsibility or could be held accountable for any particular client. It was, in brief, a disaster.

Efforts at reform based on state legislation passed in 1971 began in 1972-73. The self declaration was replaced by an extensive application form and requirements were established for documentation such as birth certificates, school attendance records, rent receipts, etc. Similarly, the mail recertification was replaced by a face-to-face recertification requiring the recipients presence at the recertification site. The impact of these measures, along with some other efforts such as matching welfare payment files against such files as Unemployment Insurance and Social Security benefits, was substantial. Ineligibility rates and overpayments did go down significantly. As already stated, in most counties outside of New York City, the ineligibility rate by the first half of 1976 was down do about three percent, about as low as it can be expected to go. In New York City it still hovers around 11 percent.

In terms of administrative effectiveness, it could be said that the city government had to be dragged, kicking and screaming, into the second half of the current decade. Beginning in 1975, however, the New York State Department of Social Services in cooperation with the City's Human Resources Administration—a cooperation at first uneasy but currently much improved—has focused its attention on the administrative problems in the welfare program in New York City. A number of measures were instituted, designed to reduce ineligibility. Included among these was the mail survey of all welfare cases, which resulted in closing about 11,000 cases in the first survey completed in February 1976 and over 10,000 in the second one completed in November 1976. About half these cases remain closed for six months or more. The face-to-face recertification procedure, which had bogged down because of computer and other problems, has been reorganized so that all cases are being called in at appropriate intervals; a significant volume of cases are closed each month mainly because of failure to report for the interview and about 40 percent remain closed. Reorganization of the process for closing cases has substantially reduced the time it takes to remove a case from the file and to stop the issuance of further checks, from over 46 days in early 1976 to about 28 days by the end of the year, and a further reduction is anticipated.

Other improvements in administration are currently in the demonstration and training phase and should be instituted throughout the city by mid 1977. These are designed to tighten up both the application and reapplication process. As already indicated, the self declaration was replaced by a detailed application form and required documentation. But the application workers did little probing to determine whether the information the applicant presented was consistent or any checking to insure that the documentation was valid. Rent receipts, after all, are easily obtainable. A demonstration project involving a series of checks on the information obtained from the applicant revealed that among those whose applications accepted, about 17 percent of the Home Relief single persons and seven percent of the AFDC cases were in fact ineligible. New application procedures now being instituted should significantly reduce the possibility of ineligible persons being accepted for welfare.

Currently, when a client's case has been closed because of failure to report for a face-to-face recertification interview or failure to respond to a mail questionnaire, a reapplication made within 30 days is approved without any review of the client's situation. Under new procedures, each such reapplicant will be required to undergo a full eligibility review.

As indicated above, New York City and other localities have been matching the welfare payment files against the files for payments for Social Security, SSI, Unemployment Insurance, and some other benefits. Each of these matches uncovers some ineligible or overpaid cases. What has been lacking is a matching against the wage records of those employed. Numerous State efforts over the last several years to obtain permission to match against the wage records kept by the Social Security Administration have failed for one reason or another. If further efforts continue to be unsuccessful, New York will need to adopt a wage reporting system of its own, as is now done by California and 35 other states, to make such a matching possible.

The administrative changes just described may sound nitty gritty, but the administration of a complicated program is a nitty gritty business. It is attention to such details and the implementation of procedures and the training of staff to understand them and appreciate their importance which makes for the difference between a poorly run system which loses the public's confidence and a reasonably well run system which the public is prepared to support. The objective is to make it hard, not easy, to beat the system because if it's easy, lots of people are going to try and will succeed in beating it.

Federal Changes

Some changes in Federal legislation are also necessary if improved administration at the local level is to achieve its full potential. Some of these relate to the food stamp program and others to the welfare program itself.

Food stamps provide an important addition to the cash benefits available to welfare clients, as well as a supplement to low income working families. A four-person welfare family may obtain as much as $600 additional buying power per year from the food stamp bonus. Current rules and regulations, however, drive both administrators and clients up the wall.

Just two changes in the food stamp program would greatly simplify life for both groups. One is the substitution of a standard deduction for the present plethora of adjustments to gross income which must now be made—rent above a stated proportion of gross income, precise costs for telephone and utilities, special education costs, medical costs above $10 per month and there are others. Even with the best of computers, the costs of administering such a system and the possibilities for mistakes in determining client benefits are just too high.

The second necessary change in the food stamp program is the elimination of the purchase price. Currently, the food stamp recipient is required to pay out cash, say $100, in order to receive $150 of food stamps, for a bonus value of $50. As a result, an elaborate system involving banks, check cashers, auditors, etc., is handling not only large quantities of stamps but large quantities of money and, not infrequently, money is lost or stolen or fraud occurs. Further, a significant hardship is imposed on the client who may find it difficult at any particular time to reserve the necessary cash to buy the semi-monthly or even quarterly food stamp allotment to which he is entitled. All this could be avoided if the client were to receive only the value of food stamps equivalent to his bonus without having to make a cash payment for the rest.

At its last session, the Congress enacted legislation which corrected one serious flaw in the welfare system from the state and local point of view. It allowed intact families in which the head of the family was obtaining unemployment insurance benefits to obtain supplementary welfare benefits, if these were necessary, under the AFDC program. Previously such families were supported under the Home Relief program, which does not obtain any Federal funds. The additional Federal contribution which will be forthcoming will lessen the burden on the states, though no huge sum is involved.

Two other measures of significant importance were under consideration in Committee but did not reach the floor. One would have removed the present 10 percent restriction on the use of vendor payments or restricted checks for AFDC cases. In the cases in which the restricted check is used, the check is made out to both the client and the landlord (or the utility company) and can be cashed only when endorsed by both. The 10 percent limitation is a serious problem, especially in New York City Though the two semi-monthly checks the welfare client receives covers the cost of rent and utilities as well as food, etc., it is unfortunately the case that frequently the client does not pay the rent for several months and may then move out or be evicted, leaving the landlord to bear the loss. The result, all too often, is that the building becomes unprofitable and, in time, the owner abandons it. Similarly, while it may be hard to shed a tear for Con Edison at the moment, it too has problems with unpaid bills. The consequences are costly for the welfare system as well, because the client must be housed and must have the electricity turned on. Thus, the welfare department must issue a duplicate check for back rent (or pay moving expenses and a security deposit) or for unpaid utility bills and then, try to recoup by deducting 10 or 15 percent from future welfare checks to the client—a losing game. The problem can be met by lifting the restriction on two party checks altogether or by raising significantly the proportion of clients who can be made subject to it. If this were done, the local welfare agency could make use of this device whenever it seemed appropriate to insure that the welfare benefits paid to the client were used for the purposes for which they were granted.

Work Incentives

In its efforts to provide AFDC mothers with an incentive to work, the Congress in 1967 adopted the principle of an "income disregard." In brief, it provides that in determining the amount of any continuing welfare benefit for the AFDC mother who takes a job, the first $30 plus one third of the remaining monthly income, as well as work expenses, taxes and child care costs, shall be disregarded when determining AFDC eligibility. As a result, it is possible for an AFDC mother with three children to remain on welfare, albeit with a small cash supplement, until her income reaches about $29,000 per year, and, as long as sh is on welfare, she remains entitled to full medicaid coverage for herself and he family.

It is at least doubtful that 30 and a third has ever been a significan incentive to work—the percentage of AFDC mothers in New York City who ar employed has remained stable, at about six percent, for years, and the number who leave the welfare rolls because they obtained jobs has remained low—fewe than four precent. Its main effect has been to create a permanent class of welfar recipients, for it is unlikely that most of the women who come on to the AFD program will ever command jobs which will pay salaries substantially above th average for all wage earners. Further, it creates a serious inequity between thos who never were on welfare and those who were, to the great disadvantage of the former. Though embedded in law for less than a decade, "30 and a third" has developed some mystical aura which sustains it. Nevertheless, one may hope that Congress will address this issue at the current session and substitute a standard deduction for work expenses and child care or, alternatively, reduce the disregard and place some time limit on its duration.

It would be foolish to imply that the changes suggested above constitute a complete list of all desirable or even necessary changes. Many details of Federal and State law and regulations require simplification. I maintain, however, that with these changes in law, with improved administrative procedures at the state/local level, and with an increase in the Federal contribution to welfare costs for both the AFDC and Home Relief programs, this thing called a welfare mess could begin to be called a welfare system. To achieve full status as a system, however, it must be complemented by a program to reduce unemployment and increase employment opportunities especially for the young and minority groups and by the provision of necessary services to the vast majority of clients who do indeed need the welfare benefits they receive to help them achieve financial independence as rapidly as possible.

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The views expressed in this article are those of the author and not necessarily those of the New York State Department of Social Services.

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STATEMENT PREPARED FOR THE SUBCOMMITTEE ON PUBLIC ASSISTANCE OF THE COMMITTEE ON WAYS AND MEANS

Philip L. Toia, Commissioner
New York State Department of Social Services
May 1977

Mr. Chairman and members of the Subcommittee - I am Philip Toia, Commissioner of the New York State Department of Social Services. It is an honor to have this opportunity to present testimony on public assistance and the SSI Program before this subcommittee. In my testimony today I will cover four specific concerns of New York State: the SSI 1/3 reduction as a result of in-kind support, an emergency assistance program for SSI recipients, the 30 and 1/3 income disregard provisions, and the 10% vendor restrictive provisions.

SSI - 1/3 Reduction for In-kind Support

The SSI Program provides income assistance to over 375,000 people in New York State. Yet SSI has importance beyond that suggested by the number of people actually receiving SSI benefits. SSI represents the first serious federal attempt to administer a public welfare program directly. The SSI Program, therefore, is both a test case and a model for the future development of public welfare programs.

SSI was designed to replace the variety of complex state administered programs, with a simple and equitable federally administered program. SSI was to have a uniform, clear, and objective system to determine need.

New York State feels it is our responsibility to work towards making the SSI Program responsive to human as well as societal needs. For this reason, Mr. Chairman, we are speaking out today on a section of the law which serves neither society nor humanity. I refer specifically to Section 1612(a) (2) of the Social Security Act which defines unearned income for SSI purposes. This section introduces the concept of treating support and maintenance received in-kind as income.

In an apparent attempt to minimize the indignity of detailed intrusions into a recipient's life, Congress established an exception to the in-kind support and maintenance provision. This exception provided that, if a recipient lived in a household and received both support and maintenance in-kind, the recipient would be subject to a 1/3 reduction of the federal benefit in lieu of having to provide detailed documentation of the actual value of this support and maintenance. Unfortunately, this very section of the law has placed an onerous burden on our needy aged, blind, and disabled citizens.

In response to the problem of the 1/3 reduction, many organizations have recommended change. On January 26, 1976, the special SSI Study Group of the American Public Welfare Association presented a report to the Social Security Administration. Among the many recommendations, this blue-ribbon group recommended that the automatic 1/3 reduction be eliminated. They continued to suggest that only cash contributions should be counted as income.

The APWA study group estimated the cost of the elimination of the 1/3 reduction to be approximately $250 million. Apparently money for this purpose is already available. It is my understanding that last year, the Social Security Administration returned to the Federal treasury more than sufficient funds to effect the elimination of the 1/3 reduction nationwide without increased appropriations.

Let me briefly discuss the three major problem areas associated with the 1/3 reduction policy: administrative complexity, inequitable results, and poor social policy.

The determination of the applicability of the 1/3 reduction has become an administrative nightmare. Let me illustrate the process in highly simplified form.

In order to determine if the 1/3 reduction is applicable, the Social Security Administration must establish two things: first, is a recipient living in a household, and second, is the recipient receiving both in-kind support and maintenance.

A recipient is considered living in a household if he shares common facilities with other adults, other than his spouse, and the household functions as an economic unit. Persons in a foster care situation, a commercial establishment, or living in any kind of institution are not considered living in a household. Recipients not sharing all the common facilities of the household are not considered to be functioning as a unit. For example, if a recipient ate all his meals outside the house, he would not be considered living in a household. However, if that same recipient ate a few of his meals in the house or shared common cooking or food storage facilities, he would be considered living in a household. Once it is clear that a person is considered to be living in a household, the Social Security Administration proceeds to the second step of the determination process.

If such a person is receiving in-kind support and maintenance, he is subject to the automatic 1/3 reduction. This 1/3 reduction will occur unless the recipient can present detailed documentation that he is paying his full pro-rata share of all the following expenses: food, mortgage or rent, taxes, heating fuel, gas, electricity, and sewer and garbage disposal. If the recipient pays his pro-rata of only eight of the nine items, he will be subject to the 1/3 reduction. If he pays only one dollar less than his full share, he again will be subject to the automatic 1/3 reduction. If the recipient pays his complete share of rent to a landlord living in the same house, he is still subject to the automatic 1/3 reduction.

Let me now focus on some of the inequities that arise through the application of the automatic 1/3 reduction. By way of illustration, let me cite a particularly appalling example.

A severely retarded 27 year-old woman has been residing with her parents and brother since birth. She has been paying her pro-rata share, that is, one fourth of the household expense, out of her SSI check. A series of events then occurred: the recipient's brother moved out of the house, causing her pro-rata share to rise to 1/3 of all household expenses; the taxes and utility costs increased. Her pro-rata share then became far greater than her total SSI benefit. As a result of these events, the recipient's needs had become greater than ever before.

How did SSA respond to this situation of increased needs? SSA reduced the recipient's check by the automatic 1/3 reduction. By what logic is this possible? As long as this severely retarded woman was paying her share of the household expenses, she was not considered to be receiving in-kind support and maintenance. However, when she became unable to pay her share, she was then considered to be in receipt of in-kind support and maintenance, and thus, subject to the 1/3 reduction.

Section 1612(a) (2) of the Social Security Act is responsible for this kind of perverse logic that would consider an increase in expenses as an increase in income.

Throughout this recipient's life, her parents have shouldered the enormous emotional and financial burdens of caring for a severely retarded daughter. Now, when the family is struggling to maintain its integrity in spite of significant increases in expenses, the governmental program designed to aid our aged, blind and disabled citizens cuts their daughter's grant! Furthermore, if the parents are unable to reduce their expenses, they are faced with the necessity of institutionalizing their daughter at enormous taxpayer expense and at great emotional sacrifice to themselves and their daughter.

In the same circumstance, under New York State's former AABD Program, increased expenses would be treated as increased expenses, and the recipient would have been eligible for an increase, not a decrease of benefits.

Finally, and most significantly, let me discuss the negative long term social and economic consequences of the concept and application of the automatic 1/3 reduction.

It is the avowed goal of Congress and government in general, to work towards strengthening American family life. We are all deeply concerned about the continuing erosion of this most fundamental American institution. The informal ties and support systems that have existed for centuries are beginning to disintegrate under the onslaught of the many pressures of modern life. Elderly grandparents who formerly remained at home as part of an extended family are all too frequently forced to live in a nursing home or similar institution. As the informal support systems disappeared, more expensive formal governmental institutions took their place. Where once the disabled child spent his life in the home of relatives, more and more frequently we see the same child left in an institution. All too often the aged, the blind, and the disabled must leave their homes, not necessarily because their relatives don't care, but because it has become financially impossible to continue to maintain them at home. Mr. Chairman, with our policy of applying the 1/3 reduction, we are contributing to this breakdown of the family support system.

The 1/3 reduction is a financial disincentive to maintaining an SSI recipient in a relative's home. When concerned relatives or friends provide some kind of in-kind support and maintenance to an SSI recipient, the Social Security Administration uses this fact to reduce the recipient's SSI grant. In New York State, for example, a recipient living with others can currently receive a maximum SSI benefit of $175.90. When that person is subject to the automatic 1/3 reduction, his grant drops to $120.05. Clearly, by counting in-kind support and maintenance against a recipient's grant, we are increasing the likelihood that the person will become unable to continue living with his family.

When an individual is unable to remain in his home, institutionalization becomes the only alternative. Instead of the intimacy of family life, the individual now finds the formality of institutional life. Instead of relatives and friends, the individual now finds attendants and, all too frequently, long cold corridors.

Through numerous laws, Congress has demonstrated its committment to the prevention and diminution of institutionalization. The Keys Amendment of P.L. 94-566, for example, acts as an incentive to the development of smaller, more homelike environments for our disabled citizens. Numerous studies and reports document the social and fiscal advantages of family-type living. Yet the 1/3 reduction continues to have the opposite effect.

There are thousands of SSI recipients throughout our nation, who are being cared for by non-legally responsible relatives or friends at great emotional and financial sacrifice. This kind of caring must not be penalized or discouraged.

I urge that your Subcommittee end the application of the well-intentioned, though ill-conceived, policy of the 1/3 reduction. It is a policy that is fostering some of the very problems the Congress and the executive branch are striving to correct.

EAA Program

Another issue of concern to us is the necessity for a nationwide approach to meeting the emergency needs of our aged, blind and disabled citizens. This can only be accomplished by a total Federal assumption of responsibility for such emergency needs under the SSI program.

SSI recipients often encounter problems that cannot be remedied without grants of additional funds. The seriousness of such situations is usually compounded by the fact that these basically "normal" people may function well until faced with an unexpected crisis or emergency. At this time, the recipients diminished physical and mental capacities exacerbate the crisis situation and they become unable to cope. No component of the SSI program currently responds to these kinds of situations, beyond the rarely used $100 one-time emergency payment available only at the time of application.

Lacking a federal response to the problem of meeting the emergency needs of SSI recipients, New York State created a temporary program of Emergency Assistance for Adults (EAA). In order to avoid undue hardship on many aged, blind, and disabled persons, such assistance is granted in a number of specifically defined emergency situations beyond the control of the client. Examples of such circumstances include: replacement or repair of clothing, furniture, food, fuel and shelter lost due to catastrophe or burglary; replacement of lost, stolen or unreceived SSI checks or cash; establishment and maintenance of a home; repair or replacement of essential household equipment; payment of up to 4 months' utility or fuel arrearages and; nutritional requirements.

To accomplish the purposes of this program, New York State and its localities have spent $4 million since the inception of EAA in January, 1974. From January to December 1976, New York expended over $1.8 million in serving approximately 17,600 persons. For Fiscal Year 1977-78, we have budgeted $2.2 million for EAA.

While this level of effort indicates a committment by New York State to meet the emergency needs of its aged, blind and disabled citizens, we feel that the federal government is the most appropriate administrative agency for such activity since the Social Security Administration is already actively involved with all SSI recipients. The failure of the federal government to respond to emergency needs of this population is an abrogation of the responsibility it assumed when SSI was established.

States, such as New York, which have responded to the emergency needs of its citizens, should not be penalized by the ever-increasing financial burden of maintaining programs such as EAA. Proposals for even limited relief in this area have not been effectuated. For example, a provision of HR 8911, introduced last year but not enacted, authorized the federal government, in the case of a lost, stolen or unreceived SSI check, to send a duplicate check to the State that had issued an emergency grant to the affected individual. This proposed procedure would have been similar to that for reimbursement of the State for interim assistance. Nevertheless, even had this proposal become law, it would have fallen far short of a realistically comprehensive emergency program.

We strongly urge the introduction and passage of legislation in this session of Congress to place the responsibility for meeting the emergency needs of our aged, blind, and disabled citizens within the SSI program.

30 and 1/3 Income Disregard

The New York State Department of Social Services has been concerned for some time with the Federal requirement that ADC families with an employed person receive an income disregard of $30 from their gross income and 1/3 of the remainder from this amount. The announced Congressional intent of this disregard was to provide an incentive for an ADC family to become self-supporting through employment. The effect, however, has been to create a class of persons who use ADC as an ongoing income supplement program and to create a permanent class of welfare recipients.

For example, a woman with three children could receive $435 a month in New York State without working. If she is employed and earns $400 a month (approximately $90 per week) what is the incentive for her to continue to work?

- As an employed ADC recipient, the 30 1/3 exemption of gross income is $154. From the remaining $246 of income work-related expenses are deducted. If work-related expenses, exclusive of child care are $70, the net applicable income is $176. Her monthly income, therefore, amounts to $659 plus a child care allowance.

The current cut off point for a family of four without child care is $14,500 and for a family of four with child care of $215, it is $29,000 although I am not aware of any family with earnings that high.

Thus, the current economic situation, employed ADC recipients through the 30 1/3 have more disposable income than the working poor.

The income disregard provisions should be considered in terms of three separate components: work expenses, work incentive, and child care expenses.

Last year, HEW proposed for work expenses an initial $30 disregard, plus a disregard of a flat amount of $30 to $100 or a percentage of earned income between 10 percent and 25 percent. Under this proposal, the states would have had the option of choosing between a flat deduction or a percentage deduction, and then choosing with certain minimums and maximums.

Such an approach has considerable merit. It allows a state to adjust the disregard to existing food costs, transportation expenses, and tax levels within the particular state. However, a more appropriate work expense provision might be one providing a flat grant amount for such work expenses as transportation and lunches and a percentage deduction for social security and taxes. A flat deduction of $50 a month would cover the fixed work expenses of carfare or public transportation, lunches, and other incidentals. A percentage of deduction of 20% would cover Federal and State taxes, plus social security deductions.

Should a work incentive felt to be necessary, various approaches might be considered. It is our view that the cut-off point for a family of four should be between $8500 and $9000. Thus, the work incentive should be tailored to this end. Such an approach will not leave room for much of an incentive. By keeping the incentive small, it will be much easier to terminate the incentive and to move recipients from welfare to full time employment. It also helps the incentive from becoming disincentive and overcomes the current discrimination against the working poor who are supplemented in our home relief program.

An approach that we would favor would be a one-tenth exemption (10%) from net income. Under an approach using a $50 flat deduction and a 20% deduction for work expenses and a 1/10 th deduction from net income for a family of four without child care expenses would be $8700 per year. This is a more reasonable figure than the current cut-off point of $14,500.

An important consideration in a work incentive provision is a "time cut-off". The purpose of the incentive is to induce welfare recipients into the labor market. Having entered the labor market, the incentive provision then works to hold the welfare family on welfare. A specific cut-off should exist after a specified period for any work incentive provisions.

A subject related to the question of employment of the ADC mother is the matter of child care. Under current procedures, child care is met as a work-related expense where there is income from employment. As a result, the family stays on welfare until earnings exceed the sum for needs, exemptions, and work expenses including child care. As long as she remains on welfare, she is automatically eligible for Medicaid and food stamps. We would urge that child care for employed individuals be met as a purchase of service, however, be exempt from the services ceiling. In this way the cost of child care would not be considered as a work expense in determining the family's eligibility for public assistance. This would insure that the "cut-off point" for employed public assistance families would not be inflated by the cost of child care. The reduction of this cut-off point also impacts on "automatic" eligibility for medical assistance and food stamps.

In the absence of this much needed change, some provisions must be provided for deducting child care expenses. The determination of initial and continuing eligibility for public assistance should not take into consideration the cost of child care. If otherwise eligible, the cost of child care would then be included in determining the assessment of the assistance grant.

One approach in determining the level of the child care allowance would be to provide states with the option of setting the limits on the cost to be paid for children. The kind of day care to be provided must be addressed in determining the cost of child care. If employed recipients are to utilize child care provided by organized day care facilities—with the recognition that formal day care is more costly because of enriched programming—then a reasonably high allowance must be provided. In New York, this could be up to $225 a month. On the other hand, it is our experience that the majority of employed ADC mothers do not utilize the child care services provided by organized day care centers as other types child care is readily available at much lower costs. A maximum of $125 is not an unreasonable amount for child care in these situations.

Vendor Restriction

The artificial 10 percent limitation enacted in 1968 has created a serious fiscal and program situation in New York State. The ability of the local social service district to meet the needs of the recipient is jeopardized in that local districts must absorb totally the amount in excess of the 10 percent limitation. Throughout the years the percentage of vendor payments in New York State has increased to the point of exceeding the limitation even though local social service districts have done everything possible to maintain these payments at a minimum. This has resulted in substantial financial losses to the local social service districts especially New York City.

It is New York State's contention that the federal statute restricting participation in vendor payments made on behalf of ADC cases to 10 percent needs to be reevaluated. The 10 percent limitation on these payments is arbitrary and capricious. Neither the statute nor congressional intent shed any light on why these payments are limited to 10 percent rather than any other percentage figure. In other federal programs restrictions or limitations on payments have been govened by circumstances and/or recipients choice rather than on an established percentage. For example:

- In the AABD Program (former Title XVI), there was full Federal participation in indirect payments made to a protective payee when a physical and/or mental condition rendered the recipient incapable of managing his own funds. In ADC there are many instances where the individual is suffering emotional problems or whose intelligence is so limited that such type of payment would be in their best interest.
- Under the former Title XVI (AABD) the shelter payment for all AABD recipients residing in a public housing authority could be made by voucher payment to the housing authority.

- In the ADC Foster Care Program (Title IV-A), third party payments (Protective payments) are made in all cases with full federal participation.
- Payments made to meet emergency needs of families under the Emergency Assistance to Families Program (Title IV-A) can be made as money payments, vendor payments or payments in kind.
- In the WIN (Title IV-A) and Child Support Enforcement (Title IV-D) Programs when the caretaker relative is sanctioned out of the case for failure to comply with program requirements, the assistance payment for the children is made as a protective payment.
- United States Department of Agriculture regulations permit a deduction of the food stamp purchase requirement from the monthly grant for recipients requesting same.
- Social Security Administration has instituted a program whereby OASDI and/or SSI monthly payments can be deposited directly in a bank, if the recipient so elects.

In all the above situations, full federal financial participation was or is received even though payment is not made directly to the recipient. This being the case the 10 percent limitation on ADC payments is the exception rather than the rule.

In July, 1976, I wrote to Mr. William Toby, the HEW Commissioner for Region II, expressing our concern about the 10% vendor restriction provision. Among the reasons cited for our concern, and which support the argument for modification, were the following:

- Landlords are demanding direct payment of rent as a condition of renting to welfare recipients. This situation results from non-payment by recipients and is further exacerbated by clients who move owing arrearages which the landlord is unable to collect. In the absence of rent income, landlords are not providing maintenance and, eventually, are abandoning the buildings, thereby reducing the already limited number of units available to welfare recipients. In New York City, there has been a net decrease in housing stock over the past few years with approximately 30,000 units lost per year. The real estate industry has pinned the blame for this decrease primarily on increased costs and falling revenues produced by, they allege, rent control and rent stabilization programs. A number of landlords have blamed reduced revenues on welfare clients who move out owing them large sums of rent. Landlords have insisted on rent restriction as a condition of renting to public assistance recipients. Our State Legislature enacted a bill which calls for direct payments of rent to landlords where a public assistance tenant has failed to meet his full rent payment. In New York City in 1975 an average of 4,263 recipients per month are added to the list of recipients who did not meet their rent obligations and required duplicate payments of $1,093,870 per month to prevent their eviction.

- Utility companies and fuel dealers are also demanding direct payments. Consolidated Edison which supplies utilities in New York City and Niagara Mohawk, a major supplier in Upstate New York, are requesting guarantees of payment for welfare clients, and, in many cases requiring vendor payments as a condition or providing service. This results from the current high cost of electricity and an increase in non-payment of utility bills by all segments of the population. In 1975 an average of 2,868 recipients per month did not meet their utility bills and required duplicate payments of $451,819 per month to prevent utility disconnection or to restore already shut off utilities in New York City.

To avoid abuses and deter abusers, and since under law we are unable to duplicate payment already made, New York State has instituted a policy of recouping an advance allowance issued to prevent eviction or utility shutoffs. The effect on the family is a reduction in the net amount of funds available to pay rent, utilities, buy food, clothing, furnishings, and incidentals.

- Some recipients are requesting that direct payments be made. In New York State, public assistance payments are currently based on 1972 price levels. When recipient families are subjected to recoupment or the application of sanctions, additional pressure is placed on the family. With the reduced financial resources there is a tendency to default on the obligations involving large monthly expenditures such as in rent and utilities, rather than cut back on daily or weekly expenditures, i.e. food and incidental needs. The use of a two party payment for large monthly obligations serves to assist the family in setting aside funds to meet fixed monthly obligations.

In today's society voluntary withholding is a generally acceptable money management tool. Many persons use this method to insure that current income is set aside to meet financial obligations. For example:

- Income tax withholding is used by many as a yearly savings plan.
- payroll deductions are frequently made for credit union loan payments or savings, savings bonds, etc.
- banks have plans whereby they will handle certain transactions for depositors; i.e., payment of home mortgage.
- utility companies offer the "budget plan" to customers whereby yearly bills remain constant regardless of actual bills.

In addition, this tool has application to the welfare population that:

- social services districts cannot obtain emergency services (i.e., delivery of fuel oil or hotel-motel accommodations), without guaranteeing direct payment.
- with the increase in thefts in urban areas, a restricted payment protects the recipients.

Over the past few years, policies have been developed out of a pragmatic need to administer the AFDC programs in the large urban area. The landlord and the utility company could not be made to bear the cost of non-payment of bills by recipients because the fall in revenues led to increased rents or abandonment, or increased utility rates. The local taxpayer could not be made to bear the costs of duplicate payments in which the Federal and State Governments would not participate. Recipients had to learn that there were financial obligations associated with obtaining advance payments which had to be paid back - thus the development of a policy of recouping from future grants. The mechanisms offered by the Social Security Act to provide for protective payments are not available in a large urban area. The courts, with their heavy calendars, were not about to devote resources to hearings on powers of attorney or appointing committees. Given the population receiving ADC in a large urban area, it was not possible to find relatives, friends, or other interested parties who would assume the responsibility for administering a payment made on behalf of a family.

The mechanism available to meet the pragmatic problems presented in administering the program was advancing sums to meet the obligation, recouping from future payments and making two party payments for other portions of the grant, i.e. rent and utilities. This mechanism was used on a wholesale basis and served to diminish the impact of non-payment of bills on landlords and utility companies.

While the Social Security Act required that a family receiving a restricted payment be given social services, a pragmatic administrator has to ask - toward what objective. If the family is viewed as unable to manage the grant because of physical, mental, emotional problems, a social service aimed at improving the family's perception of its alternatives, choices, responsibilities, makes sense, even if there is no high success ratio demonstrated by social services in improving the ability of persons to function. If the family, on the other hand, is viewed as managing as well as any other family struggling against rising inflationary costs and borrowing from Peter to pay Paul, then the referral to a social service makes less sense. The separation of Income Maintenance from Social Services and the concept of clients voluntarily seeking social services also tended to diminish the referral of families who were receiving restricted payments for social services. The widest interpretation of protective services, mandated under Title XX, could include services to families who have mismanaged their grants, but even mandated services are viewed as something to be offered - not necessarily to be taken by the recipient.

Recommendations

We urge the total elimination of the 10 percent limitation and that such elimination be retroactive to January 1, 1968. As an alternative to any limitation I propose that the states be allowed to develop state plan material specifying those situations/circumstances when vendor restrictive payments would be allowed with full federal participation. In this way, the states through its system would be able to provide adequate guidance to welfare recipients on how to manage their funds. Thus, if the recipients show they cannot or if economic conditions are such that they are unable to handle the situation then and only then would they be placed on a vendor payment basis. The use of this type payment would be monitored through the quality control process and/or audit process.

Unless relief is forthcoming the states as well as recipients will continue to suffer because of the irrational and arbitrary percentage limitation.

Dr. **Bernstein.** I might just add that we have been concerned about this for at least the last 2 years, and have urged a change in that 30⅓ formula.

Let me put it this way. It is not that there are very many women earning $29,000 a year. I would say that that is the rare case. However, there are women who are earning $13,000, $14,000, and $15,000—or $11,000—and these women are getting a benefit from this 30⅓ provision which, in a sense, is inequitable because there are many other women who have never gotten on welfare who are earning $8,000 or $9,000 a year and do not get these benefits.

They accrue only to women who have been on welfare and then get jobs. They then become entitled to this 30⅓.

If you have a woman earning $8,000 a year with one, two, or three children, she will not be eligible for welfare and she will not get these benefits.

Mr. **Fountain.** According to our committee print on administration of the AFDC program, at page 127, New York spent an average of $623 per AFDC family on administrative costs in 1976. This was $184—or 42 percent—more than California spent.

Yet New York had an ineligibility rate of 9.9 percent as compared with 2.2 percent for California.

Are you in a position to tell us why California was able to administer its caseload at a much lower cost and still run a more efficient program, as measured by the error rate?

Dr. **Bernstein.** I do not have any good answer to that, Mr. Chairman.

Let me say that I am not too well acquainted with that piece of the operation. I would also say that I do not think that we in New York State have paid enough attention to administrative costs and comparative administrative costs in the various counties.

We will begin to do this this year. Therefore, I simply have to admit to a certain ignorance on this.

Mr. **Fountain.** In your judgment, what is a reasonable cost goal for administering an AFDC case?

Dr. **Bernstein.** Again, I am not in a position to say.

Mr. **Fountain.** You have not made any studies of this matter?

Dr. **Bernstein.** No, we have done no studies.

Mr. **Fountain.** You state, on page 4 of your statement, that a monthly mail survey of all welfare families is beyond the computer capacity of New York and most other States. However, I am told that California, which has more AFDC families than New York, requires all AFDC families to submit a monthly report on income and family circumstances.

Now, if California is able to do it, why isn't New York?

Dr. **Bernstein.** Again, Mr. Chairman, I am not sure that California is doing this on a universal basis. Perhaps Dr. Williams could tell us. Is it universal?

Dr. **Williams.** Yes.

Dr. **Bernstein.** Again, I think California is ahead of us. I would have to say to you that, on the basis of my knowledge, the state of the computer art in New York City and, indeed, in the State would not allow us to do it at the present time.

We are in the process of establishing, in New York State, a medicaid management computer system and a welfare management system. I think New York has been behind other States in the development of computer systems. There is no question about that.

I could not really explain to you why this is true, that we did not have a much more sophisticated computer system in New York State 5 years ago.

Mr. FOUNTAIN. Has your department explored the feasibility of a monthly reporting arrangement? If so, to what extent?

Dr. BERNSTEIN. We have not explored that because we are just at the stage where we have mandated, on our counties, semiannual or annual mail-outs.

Let me say, however, that we do continue in New York State to have two face-to-face recertifications a year and, in New York City at the beginning of this year, they got onto a basis where they have been able to do three face-to-face recertifications a year, one every 4 months. Therefore, we are not just relying on that semiannual survey.

As I listened to Dr. Williams—and I was very interested in his description of the California system—his system does require a special computer system. It may be that we, in New York, ought to look at it to see whether or not it would be feasible in New York State.

Again, I do have to say, though, that New York City is different. We deal with a population far more mobile than you have in other parts of the country. We now have 40,000 cases in New York who are coming to the welfare centers to pick up their checks because their checks, when sent through the mail, have either been lost or stolen once or twice, and so we have now changed it.

In that kind of situation to rely exclusively on a monthly reporting system would be technically very difficult. Therefore, it needs a good deal of study before we could institute it.

Mr. FOUNTAIN. How serious do you regard the conflict between the need for simplification and standardization of administrative procedures and the need to tailor assistance to the individual circumstances of AFDC families? How can we effectively reconcile these differing objectives in the AFDC program?

Dr. BERNSTEIN. I think if you look back over the history of the public assistance program over the last 20 to 25 years, you will see that we have already moved toward some simplification. There was the day when the welfare grant for a family was determined not just by the number of children, but by the sex of the children and the age of the children—were they under 2, 2 to 6, and so on.

We did finally move away from that, although we know that there are cost differences as between a 2-year-old and a 16-year-old.

I think we must continue to put the greater emphasis on simplification. This would be why, for example, I would favor a standard deduction in place of the calculation of the precise work expenses and the precise taxes. You can get to a figure which is a reasonable average.

We all adjust in minor differences in costs for one thing or another.

Obviously, you cannot give a single grant to families of all sizes. That would be grossly unfair. However, I think that, within our present system, there is further simplification we can do which will be useful to the client, as well as to the Government.

They will have a better idea of what they are entitled to, and we can wipe out minor differences at considerable administrative savings and afford clarity to the client as to what his or her rights are.

Mr. FOUNTAIN. I regret that limitations of time will not permit us to ask each of you to comment upon what the others have said, except in some unusual situation in which, if you care to, you may do so.

However, if you would like to submit any supplemental remarks for the consideration of the subcommittee in connection with any of the testimony, or if there are any further statements you would care to make, we hope you will take advantage of the opportunity.

We would like to get all of the facts on this subject.

I have one more question before I yield to Mr. Levitas.

I have been told that there are several million transients in New York City alone all the time, going to and from New York, people who do not reside there.

Is there a strong probability that many of those people can get on AFDC or other welfare programs—and go back and forth, having their checks mailed to them?

Dr. BERNSTEIN. Not have their checks mailed to them.

Mr. FOUNTAIN. I mean by friends from their addresses.

Dr. BERNSTEIN. That thought had occurred to us about a year and a half ago. We did a check on this because we thought it possible that significant numbers of welfare checks were being cashed, for example, in Puerto Rico or, perhaps, in California.

I do want to say that the results of that check were nil. We found an infinitesimal number, and those were cashed in areas right around New York State, very close to the border.

Let me say that we will provide assistance—and we must under the law—to any family that comes to New York or any single individual from wherever in the country and needs assistance. We have no residency requirement.

As I have indicated, many people on welfare in New York City—in fact, 75 percent of the AFDC mothers—have come from other States in the country, were born in other States. It is our obligation in New York, however, to take care of people in need wherever they came from.

Mr. FOUNTAIN. As a member of the Advisory Commission on Intergovernmental Relations, then-Governor Rockefeller advocated, and the Commission did recommend a federalization of welfare programs, that the States assume full fiscal responsibility for the public school system.

We had quite an interesting colloquy in which he said that many of the poor people from North Carolina and the South were coming to New York City, which became responsible for supporting them.

Mr. Levitas?

Mr. LEVITAS. Thank you, Mr. Chairman.

I would like to thank all the members of the panel for their interesting and informative testimony.

I have a few questions, and I will address them to anyone who may know the answer.

Does anyone know the number of people who are directly or indirectly involved in the administration of the AFDC program nationwide?

[No response.]

Mr. LEVITAS. All right.

What is the national administrative cost of the AFDC system, representing both local and State, and Federal expenditures?

Ms. BLONG. $1 out of every $11 spent in AFDC. In the food stamp program, it is somewhat higher. It is closer to $1 out of every $9.

Dr. NATHAN. On page 128 of the committee print, there are tables that indicate administrative costs of AFDC. These figures probably also indicate personnel figures, if we had enough time to dig in here and respond to your question.

The 1976 total administrative costs for AFDC were $1.07 billion, as stated on page 128 of the committee print. This was shown as was just indicated, to be 11 percent of AFDC payments. Again if you look on page 128, you can see that that proportion has been increasing.

Frankly, I did not look at that previously. That is a troublesome indicator, is it not?

The next page shows application figures.

Mr. LEVITAS. I asked that question because I had heard that there was an increasing percentage in the cost of administration, as well as in the ratio of persons administering the system to the persons receiving benefits.

Mr. DUNCAN. I would make just one comment in correction. In that table on page 128, it actually shows a decrease of that percentage from 1975, where it was 13 percent, down to 11. This points out something which I think has become apparent from the hearings, and that is the talk of these wildly increasing costs in the program. There is some indication, at least recent indication from the data, that there is at least some stabilization in these figures or, in some cases, an actual decline.

Whether or not that is an aberration—their just being for 1 year—we cannot tell from the data, but it is interesting that it has dropped, actually, from 13 percent to 11. I think it is a significant reduction.

Dr. NATHAN. The personnel figures are in the committee print on page 142. I am glad for that amendment to my previous statement, also, because I think it is a very important point. Table 19 shows the staff for 1976 to be 15,000.

Dr. GOLDBERG. I do not believe we have the overall figures for AFDC case workers and other employees. What CRS was able to track is the changes in the number of employees over time.

I believe their research disclosed—and this is something we are still puzzling over—that, following the Federal assumption of the adult assistance categories into SSI, there appeared to be a very sizable increase in State administrative expenditures for AFDC.

This suggests that the States had picked up under the AFDC program a lot of the people who previously had worked for the State in the adult categories, thereby suggesting that perhaps the program was becoming less efficient.

However, we have not been able to get any definitive explanation from HEW or elsewhere as to what actually did occur along those lines.

Mr. LEVITAS. Let me proceed if I may because I have to be at my office at 1 o'clock. There are several additional questions that I will submit in writing, one to Dr. Williams and to Dr. Nathan, that perhaps you could respond to at a later time.

We received testimony the day before yesterday which indicated to me that there is not a direct correlation between reduced unemployment and the reduction of people receiving public assistance payments, with the exception of food stamps, and that the people who are in the AFDC system are not really impacted by a reduction in general unemployment.

The significance of that, Dr. Nathan, relates to the emphasis that you seem to put upon the creation of jobs as a major factor in the solution. Let me just extend that a little bit further.

You cited the lack of any necessity to create a new jobs program because of the recently enacted jobs program—I think you referred to the countercyclical program which, I think perhaps, is probably the worst one I have run into in my looking at a number of them.

That is a program which is triggered in by national unemployment rates. It is expected that the national unemployment rate will trigger out this program by the end of the next fiscal year, at least.

That being the case, all of these public service employment jobs will either have to be shifted over to the private sector or be picked up by local tax rolls.

What would be the impact of that, and is there any significant relationship between reduced unemployment and the number of people and the amount being paid in AFDC?

Dr. **Nathan.** What I was calling attention to is the fact that probably because a lot of people are critical, as you have just been, of the public service employment program, the Congress wrote into the new law last year very strict requirements that these jobs are to be allocated for people who are long-term unemployed and/or AFDC recipients, and the poor.

We have a monitoring study just initiated at Brookings on precisely this question. We do not know yet whether these strong congressional requirements will or will not change the program.

However, to me, the strong possibility of this—particularly if the Federal Government would do a better job of administering something for a change—indicates that this authority could be used significantly to target public service job creation on people who are in these needy groups.

There are about 3 million AFDC cases—that is to say, 3 million AFDC family heads. I think Sar Levitan, when he testified the day before yesterday, and in things he has written, has said that perhaps as many as half of these people could be brought into the labor market. In fact, the committee print indicates that 40 percent of AFDC recipients, at some time during the year, do work.

Therefore, my strong feeling is that we should take this newly targeted authority and use it well. If we have some measure of success, which we will soon know, it would probably be better to build on the current program than it would be to reinvent the wheel—which is a constant Washington tendency.

That was the point I was trying to get at in my testimony.

Mr. **Levitas.** Before I leave this specific point, I would like to follow that up and then make an observation, if I may, about your general thesis that we should improve the present system, rather than proceed with a major overhaul, which I believe was termed "comprehensive revision."

You stated that you favored targeting more public service jobs for the most needy. As you testified, the existing income limit for the new title VI CETA jobs is 70 percent of the lower level of BLS's budget, which is slightly above $7,000 on the average for an urban family of four.

This is about 20 percent above the official poverty level and far above the annual earnings from a minimum wage job. Earlier it was testified that millions of workers now receive less than the minimum wage.

Should the income limit for public service jobs, therefore, be lowered so as to be more narrowly targeted on them as the most needy?

Dr. NATHAN. My inclination is to think that 70 percent of that figure, and taking into the account the way the computations are made to determine what is countable income, puts us in a position where the targeting is done fairly well under current law. Therefore, my inclination is that I would not go lower, from what I know, although I would want to look into this issue further to be sure I am giving a careful answer to your question.

I think the real test is: Can we implement this program in the manner which the Congress seemed to want? The targeting is really quite explicit and quite strong. The Congress has made yoeman efforts to try to push local governments away from using this money to displace, or as a substitute for, their own employees.

In our studies, we are going to get at that. Of course, there is a $10,000 per worker limit in the law. There are, however, features in the law whereby these funds can be used for up to $10,000 of salary and the cities can supplement beyond that.

It is a very intricate subject; however, the congressional intent is strong and the new law is now being implemented. There are reasons to think that it could be a basis for significantly helping to deal with the job needs of welfare family heads.

Mr. LEVITAS. Dr. Bernstein, I was particularly impressed with your testimony on pages 4 and 5 of your statement. This was about the difficulty you are having in matching welfare payments against other benefit payments and wage records.

You may have testified about this earlier, but I would appreciate it if you would submit to the subcommittee in writing your recommendations for what legislative changes the Federal Government might contemplate to facilitate State and local agencies having this information available.

I am convinced this information would be of great value to the Congress. I think that is something we need to have to find out where your problems lie in this regard and what we can do to assist in solving that problem.

There is another area on which I would ask that each of you comment at some time because I really have to go, Mr. Chairman. That area is the complexity of the system—the complexity of computing eligibility, the complexity of verifying information, the need to have so many case workers dealing on a one-to-one basis.

I realize this goes contrary to Dr. Nathan's approach, but I would like to know whether or not we ought to consider much more of a cash-out approach or a negative income tax approach, rather than maintaining the same type of system, both from the point of view of providing a more efficient system and also from the point of view of perhaps benefiting the recipients to a larger extent.

Dr. Nathan, I think where I basically disagree with your testimony lies at the very threshold, that is, in what you define as being welfare reform.

I think it must go beyond that. You define it as providing more adequate benefits to more people while, at the same time, increasing their fairness and the administrative integrity.

It is my sense that these programs—as other programs in our type of society—depend ultimately upon public support and public confidence in them, both from the recipients and from the people whose income is being transferred to the recipients.

There is, perhaps, as much public disaffection with the existing welfare system for all the reasons you have talked about today as there is about anything else, domestically, that I am aware of.

I think we have to look at more than simply restructuring what we have. I think we really have to look at negative income tax as a possibility, cashing out food stamps as a possibility, and other types of reductions in complexities in administrative savings in order to restore—because I think it has been lost for the most part—the public confidence that is essential to the continuation of public assistance programs.

Dr. **Nathan**. May I make a comment on that?

Mr. **Levitas**. Certainly.

Dr. **Nathan**. It is precisely for these kinds of reasons that I have come to the conclusion that I have, and I spent 1 year as an official of HEW working in this area.

I feel that the deep negative feelings of people towards welfare are such that what worries me is that if you put up a negative income tax plan, what will result is that even good and conscientious liberals, because of these emotional attitudes that they see in their districts, will vote for and be most interested in restrictive features and benefit-cutting features.

That has really been the history of welfare policy. Even now, President Carter says that the one area in which he will not spend any more money with his initiatives is in welfare.

Therefore, I come to the conclusion that we should not have massive welfare legislative change because I fear that the public attitudes that you correctly identify would lead to an outcome whereby those changes would be negative, restrictive, and unfavorable to the poor, which is my main concern.

I conclude that, for the next 5 or 6 years, instead of a negative income tax—which may be right 5 or 6 years from now—we should build public confidence by trying to get more of the kinds of changes that are now happening made in other places and then try to give the public—through efforts to explain these changes—more confidence in welfare programs.

Until welfare programs are thought to be well-administered—and they are now better administered—they are not going to be well-regarded. As long as they are badly regarded, I fear that big sweeping welfare reforms will be steps backwards, and not forwards, from the point of view of the needs of the poor in this rich society.

I have taken that into account. I certainly understand the reasoning that you express, and I have talked about this to many people, but it is something that I have tried to take into account in my own reflections on the time when I was battling in the trenches on this issue.

Mr. LEVITAS. Let me suggest that I would add to your definition of welfare reform several items, the principal one of which would be the restoration of public confidence in the public assistance systems we have.

I think that it is all well and good for the few of us in this room and the maybe 1,000 other people—and I am excluding myself from this—who are equally well knowledgeable about the programs, what they are supposed to be doing, and how they are being improved to do this.

However, the perception of this situation is that the programs are not working. I hear it not only from my middle-class constituents, but I hear it from the poor in my district who are part of the system.

They are as disaffected with what they are getting at their end of the system as the middle-class taxpayers are who are being called upon to support the system. I simply pass that along to you.

Mr. Chairman, I appreciate the opportunity to question our witnesses. I will rejoin you as we continue these hearings.

Mr. FOUNTAIN. We appreciate your observations.

I might say that I cannot help but agree in part with what Mr. Levitas says, and also what you have said, Dr. Nathan. We do know that, in many parts of the country—and mine is a low per capita income section of the country—confidence has been lost in the welfare program.

Whether or not that should be construed as lack of confidence in the program or lack of confidence in the administration of the program is unknown. But I do think we should give very careful consideration to the suggestions which you and others have made.

I believe we must make significant improvements in the administration of the welfare programs, and also let the general public know that we have improved it, that the people who are entitled to AFDC are getting it, and that the people who are not entitled to it are not getting it—and that we are not wasting a lot of money.

I think that has been the concern of a lot of people, as Mr. Levitas has said, regardless of which category they are in. If they are receiving assistance, they do not think they are receiving enough. If they are not getting it, they think they are entitled to it, that somebody is getting assistance who is not entitled to it. They live next door to the people and they judge them by the automobile they drive and the number of times they buy steaks.

I run into this in a rural part of the country all the time.

Then, of course, you have middle class America which is complaining tremendously because they are paying for most of these programs. There is no question about it.

We could confiscate all of the wealth of the really rich and it would not run the U.S. Government for long. It is middle class Americans who are paying these bills, and that is where a good part of the concern is coming from.

We are going to have to move along. We may have to submit some of our questions to you in writing; however, we will try to finish.

Dr. Williams, I find your description of the Colorado monthly reporting experiment extremely intriguing.

Do you have an opinion on whether or not a monthly reporting system—either retrospective or prospective—could be made operational in a State like New York with its high caseload?

Dr. WILLIAMS. It would be my judgment that it could, but I would not want to advocate this as an instant solution. I think it would take time and technical assistance, and I strongly suspect that it could be made operational in any kind of State.

I think the key things to understand are, first, that this type of system really touches every procedure and every practice in an agency, and all of these things have to be rethought in order to implement this type of system.

Second, there does have to be some good computer hardware to back it up, and the leadtime in planning and installing that type of equipment is very long. However, I think that if adequate time and technical assistance were provided, it could be operational in a State like New York.

Mr. FOUNTAIN. In your opinion, would literacy and language barriers make it difficult for recipients to file the monthly status report in some communities, especially those with a larger foreign-born population than Denver?

Dr. WILLIAMS. I do not think that the recipient population in Denver is atypical in that regard. I think it is quite typical of the recipient population in many other places.

Many of the recipients in Denver have been born on farms or ranches, and many have language and literacy problems.

We took great care to design the form to require only yes or no responses, and only to require filling in the numbers. That type of care enables people of very low literacy levels to fill out the form and do a good job on it.

In the process of implementing this project, when we had a draft of the form, we went out and actually watched many of the recipients—many of whom did have limited literacy—fill out the form and they were able to cope with it.

Therefore, I think that they can. In a few cases, they will require help from friends or help from action agencies or that sort of thing, but we find that they can cope.

Mr. FOUNTAIN. If the monthly report is not filed by the third deadline—the 20th of the month—does the agency staff follow up to see if there is a problem, or are the families involved simply terminated?

Dr. WILLIAMS. The case is discontinued directly and automatically. There generally is no followup unless there are some types of circumstances in the case that indicate that special attention should be given.

I should add that the workers in Colorado do handle specific caseloads so, in most cases, they have at least a limited knowledge of individual and family circumstances.

Mr. FOUNTAIN. While you noted that warnings are sent after nonreceipt of the monthly report, how would the agency know whether or not these are special circumstances preventing the required response unless there is a personal contact?

Dr. Williams. I think I would answer that in two ways.

First of all, agencies now have mailout forms and they now automatically terminate recipients who do not fill in the forms and get them in by a certain time. That is true in Colorado and that is true in many other States.

The only difference is that it is not done as often as under this type of experiment.

You do rely on the initiative of the household. There is a responsibility of the recipient to follow through with this type of thing, but one of the major advantages of a system like this is that the recipient knows, at a given point in the month, that they should get that form and that they have to fill it out.

There is no ambiguity about the requirement whatsoever, so they can work around it if there are special problems.

Mr. Fountain. Ms. Blong, I have not had an opportunity to read your very detailed statement as carefully as I would like to since it became available to me only this morning.

However, based upon our studies so far, I would certainly agree with you about the critical importance of the application process for equitable and efficient administration. This subcommittee, in view of its oversight responsibility for HEW, will certainly want to know why your center has received no response to its February 2 letter to Secretary Califano highlighting a number of administrative problems, and offering recommendations for their solution. We will check into that.

It is apparent from your statement that your organization is in basic disagreement with the type of retrospective monthly reporting system described by Dr. Williams in connection with the Colorado experiments.

While Dr. Williams says that such a system makes AFDC more responsive to client needs, I believe you take the position that it is not responsive and that it is unfair; is that right?

Ms. Blong. That is right.

Mr. Fountain. Hopefully, we can pinpoint more precisely this area of disagreement through a dialog between you and Dr. Williams. I do not know when we will get a chance to do it, but maybe we can do it in correspondence.

First, however, let me ask you whether monthly retrospective accounting would be applicable if special provision would be made for dealing with new applications, and if a large proportion of the families on AFDC did have fairly constant financial circumstances from month to month?

It might also be helpful if you would state more explicitly why a retrospective monthly system would not be responsive to family needs in the light of Dr. Williams' presentation this morning.

Following you, I may have to ask Dr. Williams to address your points in writing to see if we can narrow the apparent field of disagreement.

Ms. Blong. I think the exception of the applicants and the "if" you raise about the constancy are obviously two major steps that are different from what is going on in Colorado.

The applicant problem is particularly acute because you have a person who is entering the system for the first time and whether or not they had income during the previous period—which is looked to and which, for simplicity, I will refer to as the budget period, the period of time in which income and circumstances are measured—at all, they may have had no way of anticipating that it was suddenly going to cease because of a job layoff, some illness, or something else.

They could have had no way of preparing for the period of time when they would be without income and will not receive a grant.

That problem—although more severe in the case of applicants—also carries over in the case of recipients. Our analysis of the data that is available—and we rely primarily on HEW data for this type of thing—is that we do agree with Dr. Williams that there is a very heavy rate of change in the AFDC program.

Just as an applicant can be applying because of a job loss, a family that is currently on the rolls can suffer a job loss.

For example, I am aware of a case right now in South Dakota which is using a prior month budgeting system in which a woman in a hospital, during this month of July, as a result of her hospitalization has lost her job. She will be budgeted in August on the basis of the earnings that she received in June, even though those earnings are obviously no longer available to her.

She will receive a grant—unless we are able to do something about it—of $90 for herself and her child.

That is obviously a totally inadequate amount for her. However one wants to define the terms "equity" and "accuracy," in terms of the situation of that mother and her child in August. There is no way that she can rely on the income that she had in June which is no longer available to her. Therefore, she will be far below her needs.

I think, perhaps, in a higher income system that is addressed mainly to adjusting liabilities and credits you might be able to prove that individuals—assuming, first, that they were aware of what retrospective budgeting meant and of the need to sort of prepare themselves for the rainy day in the future—could perhaps save or put aside something.

I think that, in terms of people who are receiving welfare, whether or not their income is constantly within those payment standards or not, their income is going to be close enough to those payment standards at all times that they are basically a family that is in real poverty.

A family of that type could never save or put aside. The choice between meeting your family's current need—perhaps buying a pair of shoes because you would not otherwise have been able to get them in this month—and setting something aside for the future is simply not available to those families.

Therefore, when the month comes when their income drops and their grant is not increased, they are therefore in a very dire situation.

Mr. FOUNTAIN. Thank you very much.

I am sorry that we must recess. I have about 3 minutes to get to the floor.

I want to thank all of you for very thought provoking and informative statements and for your forthright responses to the limited number of questions we have been able to ask.

As I said, if you wish to submit supplemental statements, commenting upon each others' statements or giving us your supplemental views, please do not hesitate to do so.

These hearings will continue at 9:30 a.m., next Tuesday, July 26, when the subcommittee will take testimony from a group of State and local welfare directors.

The subcommittee stands adjourned.

[Dr. Williams' response to written subcommittee questions follow:]

RESPONSES TO WRITTEN QUESTIONS SUBMITTED BY INTERGOVERNMENTAL RELATIONS AND HUMAN RESOURCES SUB-COMMITTEE OF THE COMMITTEE ON GOVERNMENT OPERATIONS

Robert G. Williams

Vice President

MATHEMATICA POLICY RESEARCH, INC.

10 August 1977

Question No. 1

You indicated that the speed of the retrospective accounting system assures that few recipients are caught short by an abrupt decline in income; and where this does occur, supplemental food stamps are made available with no purchase requirement. Would this be adequate for major budget changes in the current month, such as the loss of a job, a large rent increase, or where the family is forced to move to housing costing far more than the previous month's rent?

Answer:

We have found, based on reports from Denver and Boulder welfare officials involved in the project, that only rarely are cases caught short by an abrupt decline in income. This is because many recipients qualify for unemployment compensation or some type of severance benefits if they lose a job, or they can predict the loss of job and they are able to plan in advance. Eligibility workers in this project systematically counsel recipients with income on the consequences of abrupt income loss, and this has prevented many problems along these lines. Moreover, often the pattern of income loss is such that the system responds rapidly with at least a partial increase -- if the income stops in the middle of a reporting period, for example.

There is no difference in the responsiveness of the monthly reporting system to sudden changes in housing needs since Colorado, like most other states, allocates a flat grant based on family size that does not vary the amount of welfare grant with shelter cost. With a flat grant, serious housing needs are handled as a social service, independently of the income maintenance system.

Thus, there are only a handful of recipients who are not adequately served in cases of abrupt loss of income, and fewer still who cannot be protected through supplemental Food Stamps and various services offered by the Agency. Careful attention must be given to the needs of the few recipients who are affected adversely, however. MPR is carrying out research to determine just how many recipients are affected by this problem; to what extent they are affected; and whether some type of supplemental payment on an emergency basis needs to be added to this sytstem to protect recipients in such circumstances.

Question No. 2

Does the Colorado experiment make any provision for interviewing those recipients who are terminated because they have failed to file the monthly report? Such follow-up would seem desirable both to assure that eligible families are not being dropped and to learn the reasons why recipients do not return the report form.

Answer:

During the first month of operation in Denver County, efforts were made by County staff to contact all recipients who failed to file. The general finding was that recipients failed to file because of some factor that they knew made them ineligible, such as change in income or family composition. No cases were found in which any eligible recipient failed to file because of difficulties in dealing with the form or confusion over filing requirements. In both Denver and Boulder, the agencies routinely follow up on known problem cases who fail to file, such as those with language, literacy, or emotional problems. At the request of HEW, MPR has proposed a comprehensive survey to assess the impact of the project on recipients. If funded, this survey will include systematic follow-up of recipients who have been discontinued due to failure to file.

Question No. 3

> You noted that recipients become increasingly proficient in completing forms. Wouldn't you expect the experiment to yield poorer results if applied to places where there is a relatively high turnover rate for AFDC cases?

Answer:

We would expect this system to be more effective and have greater impact in an area with higher turnover because the need for prompt reporting and more accurate grant determination would be even more compelling in such areas. New applicants get personal instruction on filling out the Monthly Status Report used in this system and therefore become proficient even more quickly than the ongoing recipients originally transferred into this project; even the original sample, which received only mailed instructions, were able to deal with the form adequately as early as the second or third month of their participation. Colorado is about average in its rate of AFDC turnover, but we would expect the benefits to be gained from this system to be even greater in areas with even more changeable recipient populations.

Question No. 4

> We understand from the research of the Congressional Research Service that some other States, including California, use monthly reporting arrangements. How does the Colorado system differ from the systems used in those States?

Answer:

There are two major differences between the Colorado system and the California system. The Colorado system has a much shorter processing period; the overwhelming majority of recipients receive payment only one-half month after the end of the reporting period, whereas the processing time is a month in California. In a retrospective system, it is important to keep the processing time as short as possible so that changes in grant amount respond as quickly as possible to the actual circumstances reported by the recipients. The Colorado system is also fully automated, so that the computer performs many functions that are performed manually in California. This substantially reduces the administrative costs of the system, as well as contributing to the shorter response time and making possible features such as grant explanations and detailed management reports.

A number of other States have monthly reporting, but only for cases with earnings. Based on the data we have available so far, much of the effectiveness of the monthly reporting system is based on its ability to detect promptly changes in recipient circumstances that affect eligibility or amount of payment. This includes many types of changes other than earnings, including shifts in unearned income, changes in family composition, and departure from the State.

Question No. 5

What problems have been encountered in implementing monthly reporting systems? What could be done to encourage further exploration of the potential for this type of system?

Answer:

The major problem in implementing the monthly reporting system has come simply from the fact that it represents a thoroughgoing change in the functioning of an agency. Because it touches virtually every agency practice and procedure, the changeover requires very careful planning and adequate staff training.

Some legal issues have arisen because the existing statutory and regulatory framework (including relevant court decisions) for the AFDC program are based on the assumptions of a prospective accounting principle and less frequent reporting. These difficulties have not proven to be insuperable, however.

We think that this type of system would represent a substantial improvement to the administration of the AFDC program, but that it would be premature for Congress or HEW to require its implementation by States right away. Rather, we recommend that there be careful expansion of the system to a large-volume environment in Colorado and further testing of the system in other States. Replication of the Colorado experiment and administrative pre-test with other recipient populations and in other administrative situations would be very useful in generating more information on the costs and benefits of the system and would lay the groundwork for further prudent expansion should this type of system continue to yield substantial benefits. A Congressional appropriation to support this type of activity is currently pending.

Question No. 6

If the Colorado monthly reporting system were adopted nationwide, can you estimate the amount of potential net savings that might be realized?

Answer:

Based on an estimate of $10.843 billion on expenditures for AFDC and AFDC-U benefits for fiscal 1978, the preliminary results from the Denver experiment suggest a potential savings in benefits amounting to approximately $870 million if this system were implemented nationwide. Preliminary results from the Boulder pre-test, however, indicate a possible 0 to 10 percent increase in administrative costs. If we take the midpoint of that range, a 5 percent increase, and extrapolate it to estimated FY 1978 administrative costs of $1.3 billion, then we would expect an increase in administrative costs of $65 million if the system were implemented nationally. Offsetting the administrative cost increase against the decrease in benefits yields a potential net savings to the program of about $800 million. As discussed in response to a previous question, it would be desirable to carry out additional experiments in other States to verify the mangitude of potential savings in a variety of program environments.

Question No. 7

> Dr. Nathan testified that the new automation systems and the strong Federal quality control programs are reducing welfare errors. Why couldn't extensive automation of the present administrative system -- without going to monthly reports -- achieve equal administrative accuracy and efficiency?

Answer:

· The major improvements in accuracy and responsiveness of benefits that are gained from the Colorado system come from the monthly reporting requirement and the retrospective accounting principle. Automation of the present administrative system would not have any effect on the problems inherent in a system that is based on prospective accounting and infrequent reporting, even though it would be useful in other respects. It is important to emphasize, however, that the present administrative system cannot be automated to the same extent as the monthly retrospective system. This is because a prospective system requires the exercise of human discretion by the eligibility worker to arrive at a projection of anticipated income for the recipient, whereas the monthly retrospective system based the grant on actual circumstances and can therefore use recipient reports as direct input into the system. This makes possible complete automation of recipient report processing, eligibility redetermination, and grant computation.

· The Quality Control process is valuable, but it is important to note that there are many inaccuracies in payments under the present system that are not treated as errors for Quality Control purposes. For example, in Colorado a recipient can start receiving earnings on May 15~~th~~, report this new income on April 13~~th~~, and, because of processing lags, have this income affect the AFDC check for the first time on June 1~~st~~. Yet, even though the checks based on current need for March, April and May were all computed on the basis of no income, none would be counted as a Quality Control error. This is because, under a prospective system, circumstances can change which should affect a check that has already been issued. Moreover, the recipient legally (in Colorado) has thirty days to report a change after it has taken place and the agency has an additional month after the report is received to process the change. I point this out because it is important to understand that there are many mispayments in the present system, based on its underlying assumption that payments should be appropriate to current need, that are not counted as errors in the Quality Control system.

Question No. 8

Does the computer system used in Colorado require a more qualified staff than now exists in most States? A bigger staff?

Answer:

There is strong evidence that the Colorado system could be implemented in other areas with no change in staff qualifications. The eligibility workers administering this system in Denver and Boulder counties were able to handle the system effectively after a reasonable training period. Relative to other States, Colorado's education requirements for the position are low. Colorado does not even have a formal requirement for a ~~H~~igh ~~S~~chool degree, whereas many States require completion of college. As of August, 1976, Colorado ranked 39~~th~~ out of 43 States reporting on the level of compensation for income maintenance workers. We would expect, then, that income maintenance workers in other States would be at least as qualified as Colorado workers to handle a system such as this. A good training program would be required, but no change in necessary qualifications or wholesale re-staffing.

As noted in my testimony, data from the Boulder pre-test of the system indicate that no additional staff would be required for its implementation, although there might be increases in overall administrative costs for computer processing, postage, and printing. In our judgment, however, there would be potential for reducing the size of required staff and overall administrative costs if the monthly reporting system were extended to Food Stamps as well. Substantial efficiencies could thereby be realized by elimination of much duplication in processing that now exists in the two programs.

[Whereupon, at 1:30 p.m., the subcommittee adjourned, to reconvene at 9:30 a.m., Tuesday, July 26, 1977.]

ADMINISTRATION OF THE AFDC PROGRAM

TUESDAY, JULY 26, 1977

House of Representatives,
Intergovernmental Relations
and Human Resources Subcommittee
of the Committee on Government Operations,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:40 a.m., in room 2247, Rayburn House Office Building, Hon. L. H. Fountain (chairman of the subcommittee) presiding.

Present: Representatives L. H. Fountain, John W. Wydler, and Les Aspin.

Also present: Delphis C. Goldberg, professional staff member; Pamela H. Welch, secretary; and John Duncan, minority professional staff, Committee on Government Operations.

Mr. Fountain. The subcommittee will come to order. Let the record show that a quorum is present.

The subcommittee is continuing its hearings this morning on the program providing aid to families with dependent children.

AFDC is the Nation's largest and costliest cash assistance program, providing income support for more than 11 million needy people at an annual cost of approximately $10.7 billion.

This cooperative Federal-State program has been expanding rapidly. During the past 10 years, the number of persons assisted by AFDC has more than doubled, and program costs have increased fivefold.

As I observed last week, the primary purpose of these hearings is to learn, through a close examination of the AFDC program, how it can be made to operate more efficiently and more equitably.

We are aware, of course, that the administration is actively studying avenues for welfare reform. However, some of us believe that improvements in existing AFDC policies and practices are a prerequisite for the success of any restructuring of our welfare system.

It is essential that both Congress and the administration have a precise understanding of how and why our present welfare operations are deficient and how those deficiencies might be remedied.

We must ascertain, for example, why nearly one out of every four families receiving AFDC benefits is ineligible for this assistance or receives incorrect monthly payments.

At last count, the proportion of ineligible cases varied widely from 15 percent in the District of Columbia to less than 1 percent in Indiana, with a national average of 5.3 percent.

While 5.3 percent represents a substantial reduction from the 10.6 ineligibility rate reported 3 years ago, it is still cause for concern that this very important welfare program continues to perform so poorly, at least in many sections of the country.

It is the premise of these hearings that the efficiency, the economy, and the equitableness of the AFDC program—as well as of other welfare programs—can be greatly improved, even in the absence of basic structural changes in the welfare system.

We hope through these hearings to identify ways in which the AFDC program can be redirected to serve the needy population for which it is intended with maximum efficiency and effectiveness.

We are pleased to welcome as our witnesses this morning three welfare experts who have worked closely with AFDC on a daily basis.

Unfortunately, Mr. Steven A. Minter, who was to participate in this hearing, phoned this morning that he became ill last night and will not be able to be with us. He extended his regrets to the subcommittee and to the other panelists.

Mr. Minter's prepared testimony, however, will be made a part of the hearing record when it is received, and the members will have an opportunity to direct written questions to him if they so desire.

We want to benefit from the expertise of the witnesses in learning the causes for the program's inefficiencies and how it might best be improved.

We are confronted by a difficult situation this morning in that the House is meeting at 10. Regrettably, the leadership doesn't, and probably can't, contact each of us who have scheduled committee hearings, and probably isn't aware of the long distances many witnesses travel when they come to these hearings. That's the chaotic and confusing process which the Congress has struggled with for many years but which, hopefully, will be corrected some time soon.

The House is meeting all day on some controversial bills. Consequently, it may be necessary to interrupt this hearing one or more times to enable the members to vote. In that event, we will take a short recess and come back.

However, since we will have clear sailing for a little while, I will ask each witness to summarize his statement in approximately 15 minutes, if possible, so that we will have ample time for questioning.

Your entire statements will be included in the hearing record and thoroughly analyzed by the subcommittee.

We will hear from the witnesses in alphabetical order, starting with you, Dr. Dempsey.

STATEMENT OF DR. JOHN T. DEMPSEY, DIRECTOR, MICHIGAN DEPARTMENT OF SOCIAL SERVICES

Dr. DEMPSEY. Thank you, Mr. Chairman.

I am John Dempsey, director of the Michigan Department of Social Services. I have held that position for about 2½ years. Before that, I was the State budget director in Michigan for 4 years. So my knowledge of the public welfare system really is about 6½ years old—the first 4 being that of the one who was supposed to provide the money and the last 2½ of being the one who was responsible for its spending and its administration.

I welcome the opportunity to be here, because I think there is a great deal of misinformation about the public welfare system. With all humility, I think, Mr. Chairman, in your introductory remarks, you contributed to some of it—in the sense that you said that, at least in some parts of the country, this is a poorly administered program.

I wouldn't necessarily deny that, but I would say it is not as poorly administered as some people contend. The reasons for the problems, I think, are quite clear.

Mr. **Fountain**. I would agree with that latter statement also.

Dr. **Dempsey**. First of all, as a State administrator, it's my belief that the administration of the AFDC program is unnecessarily complicated. This condition results from several factors.

First is the fact that Congress over the years has expanded and altered the character of the AFDC program. Because these expansions and alterations were done at different times by different Congresses and came out of different committees and were implemented by regulations put out by the Department of Health, Education, and Welfare at different times, there is a fantastic lack of internal consistency.

People speak of the public welfare system. There is no such thing. What we have is not a single system but a combination of systems which have been put together over the last 44 years.

Secondly, I believe that the administration of the AFDC program has been complicated by the fact that it must be administered by people who also administer other programs.

In my State, for example, my agency administers the AFDC program, the State general assistance program, the social service program under both title IV–A and title XX, the child support program under title IV–D, the section 8 existing housing subsidy program authorized by Congress in the Housing Act of 1974, the medicaid program, and a host of other programs as well.

For example, Congress recently passed a bill that provided $200 million in emergency assistance for excessive fuel costs last year. We were notified of this early in June, and we were told that we had to commit the money by the end of August.

We still don't have the regs under which it is to be committed. We have now been told we have to spend the money by the middle of August.

And so we have a plan. Last weekend my department mailed out 900,000 pieces of paper to 900,000 potential applicants. And we still don't even have approval from the Department of Labor and Community Services Administration for that plan. But if we don't get it spent by the middle of August, we lose it.

Mr. **Fountain**. May I interrupt you at this point.

When they say you must commit the money or spend it, do they give any explanation as to just what they mean?

Dr. **Dempsey**. In effect, it was an appropriation for this budget year, which means it has to be gone by the end of September. For them to report, they said we would have to commit it by the end of August. Now they're telling us that to make certain, we are supposed to spend it by the middle of August. That's really the reason.

A first-line worker in my agency is expected to be able to administer many different programs established at different times by different committees of Congress and interpreted by regulations issued by different Federal agencies.

This, in essence, produces what some people have described as a mess. It's not a mess, but it is unnecessarily complicated.

Such complications and the pressures of the job, require the first-line worker in my agency and all State and local agencies to combine the wisdom of a Phi Beta Kappa, the patience of Job, the tenderness of a new mother, and the skin of a rhinoceros. That's a rare combination that isn't found very often; yet we expect it.

Third, it's my personal opinion that the unfavorable popular characterizations of the public welfare system are exaggerated. I am frankly sick and tired of hearing about the welfare mess.

The welfare system is much better than most people realize, although, I believe it could be made better. And that's one of the reasons I'm here today.

Fourth, I welcome the commitment to total welfare reform made by President Carter and Secretary Califano. I personally share their purposes and objectives, although I have concerns about some of the details of their proposed reforms as I know them.

Regardless, it is my personal belief that total welfare reform is some years away. And I think it might be many years away.

Pending that total reform, I believe there are interim improvements which can and should be made.

I'm quite concerned about the character of the national welfare reform movement. But to some people—and, in fact, to too many—welfare reform has become a panacea.

Congress has not considered total reform in 8 years, and I don't think will act on it very quickly.

The problem is that if all of our attention is concentrated on total reform, we will fail to do the short-range improvements that could make the system better.

The reason, essentially, that I believe that total welfare reform is not a possibility at this time is a Presidential commitment that I understand—and I guess we have to accept—is to reform the system totally but not to spend any more Federal money, but somehow or other, at the same time, to give fiscal relief to State and local governments.

You cannot do more for more without spending more. What the President has tried to do, and what HEW is working on is a program to substantially expand coverage but not spend more Federal money.

Mr. Chairman, I would just say that you can't get there from here.

I think incremental improvements could be made, and I think they should be made.

I have two sets of comments here which I will summarize very quickly.

The first are comments on behalf of the National Council of State Public Welfare Administrators. Then there are some personal observations of my own.

The National Council of State Public Welfare Administrators has repeatedly suggested several incremental changes in current programs.

First, the National Council has recommended that the AFDC unemployed father program should be expanded to an unemployed parent program to include women as well as men and should be mandated nationwide.

It's difficult to do that, because right now the States that have it—and there are 22—pay 50 percent of the costs. If it were to be mandated nationwide, it would have to be 100 percent Federal funding. And that, again, raises the prospect of increased Federal financial participation.

I also suggest the rules governing the operation of the AFDC–U or AFDC–UP program should be made consistent with the operation of the regular AFDC program. Even though they seem to be similar, there are different eligibility requirements and different needs that individuals must possess in order to be eligible for AFDC–U.

So in a single program—that going to families and that going to families with unemployed fathers—there are two different sets of criteria, which doubles the dilemma of the first-line worker.

Efforts should be made to develop uniform definitions of income and eligibility for programs such as AFDC and food stamps.

When a person comes in to a Michigan social service office to apply for assistance, if they are eligible for AFDC, they are eligible for food stamps; they are eligible for medicaid; and they are probably eligible for housing subsidies—four different programs with four different sets of requirements and four different criteria for eligibility.

A worker dealing with that particular client has to fill out four different forms and figure budgets according to four different sets of regulations, et cetera. It quadruples the activity, and it probably increases the probability of error by 16 times.

So, in a sense, what we need is standardization and simplification.

The National Council has also urged that the definition of "disability" for titles II and XVI of the Social Security Act should be liberalized.

There are a lot of people today who are disabled, particularly alcoholics and drug addicts, who are not, according to SSA, disabled because they are technically employable. Nobody will employ them and, therefore, they are destitute. They are not eligible for supplemental security income and States have to pick up the total costs.

We also recommend that consideration be given to having the Federal Government participate in the costs of general assistance, which is a program that many States have to provide assistance for single individuals or childless couples not eligible under AFDC criteria.

Finally, the emergency assistance program, described in section 406 of the Social Security Act, has been interpreted by several court decisions to cover a very wide range of emergencies.

As a result, several States have chosen to withdraw from the Federal program rather than meet the extremely high cost that the program entails.

The National Council urges Congress to revise that section of the law to place realistic limitations on the emergencies States must respond to if they're to be eligible for Federal assistance.

That is a statement of principles on which the National Council has agreed. I'd like to make a few specific suggestions on behalf of myself.

First of all, one of the most urgent needs in the area of welfare reform, whether it's total or incremental, is that Congress and the Department of Health, Education, and Welfare must review title IV–A programs as a whole and seek to provide clarity and remove unnecessarily complex procedures.

Federal legislation and rulemaking all too often take on a fragmented approach, resulting in regulations that are too often inconsistent with other program requirements and which make our present welfare programs extremely complex and difficult to administer.

In the interests of time, I will go to my summary. In between, there are some specific recommendations that I know your staff will analyze. I would call them to your attention.

I believe that there are several major points that must be made.

First, I believe that the present system is unnecessarily complicated—largely because it is an amalgam of many different systems and programs established at different times to achieve different purposes—and interpreted, sometimes most narrowly, by different Federal agencies.

I would suggest that all public welfare programs be brought together in one department. Having certain programs in Labor and others in HUD and some in Agriculture and some in HEW, is to doom the system to problems.

A second major problem is the tendency of the Federal Government to attempt to specify, by law or regulation, detailed behavior by workers or clients. Given the fact that we have 50 States, 3 territories, and the District involved in this program, you have a tremendous variety of conditions, attitudes, and capacities. When you have a single, detailed specification written and promulgated by somebody in Washington, it's bound to cause confusion and to produce errors.

I would also suggest categorically that Congress might consider mandating that HEW can only change its rules once every year, or once every 2 years.

We are barraged constantly with new regulations and new interpretations. I think a moratorium on change except once every 2 years would do more than anything else to reduce the errors in the program.

You could have an exception that if Congress changed the law or the Supreme Court interpreted it in such a way that regulations had to be changed, they could be issued immediately. But, by and large, fewer changes and more stability would substantially help.

Third, although—as in Michigan—States frequently spend more money in public assistance programs than the Federal Government, the Feds call all the shots, and they deny us any appropriate flexibility. We can be trusted, and I believe we should be.

In Michigan, our State puts up about 57 percent of our total social services costs; and the Feds pay about 43 percent. So we put the bulk of the money in, but in effect we have to dance to the Federal tune. And while we don't mind necessarily dancing to tunes called by Congress, we have some problems with some of the melodies that HEW puts out.

Fourth, total reform is needed, but it is going to take much time. Therefore, I suggest we don't need to wait.

Significant reforms are possible in present programs, and they could be accomplished in an extremely short time if Congress and HEW desired that improvements be made in the present system.

Changes, as recommended, are aimed at meeting human need in a more timely manner and improving administrative efficiency through specific language and clarity in Federal guidelines.

Fifth, the advantages of reform within the present program are the fact that administrative costs are predictable, and State agency systems can accommodate such changes much more effectively. Therefore, I would urge that prompt congressional action be taken to improve the existing public welfare programs.

Another point, as an afterthought, is this: You spoke, Mr. Chairman, in your opening remarks about the Federal-State cooperative relationship. There is no such thing. We are at war with HEW, and we have been for at least 8½ years.

HEW tends to assume that States are incompetent; HEW tends to assume that only they have the answers. For years they beat us over the head with the error rate based on the quality control reviews. They said, in effect, we were not competent to administer the program.

Then SSI started up, and they had to measure their error rate. Despite the fact that their cases are simpler and most of their workers are college degree people, and so on, their error rate is higher than ours. We have begun to see, particularly out of SSA, a changing attitude toward error rates and complexity and so on.

I would urge strongly that Congress give consideration to replacing the threat of sanctions with some incentives.

I went before my appropriating committees a year and a half ago and I said that based on our performance in the quality control area, we faced the prospect of $60 million in Federal sanctions.

My legislature went "ape" in effect. We sat around denouncing the Feds for several days and weeks. In the end, HEW did not impose the sanctions—it never has—because every time it does, the effects are so extreme that either Congress calls it back or we run to a court and get it called back, or what have you.

I think that sanctions are the wrong way to go. I think incentives are a better way.

In the 2½ years I've run the department of social services in Michigan, we've reduced the rate of ineligibility from about 8.5 percent down to about 4.2 percent. The net effect of that is to save the State money and to save the Federal Government money. There is no impact on the Federal-State share of costs.

If a State could be measured against itself, and it gets worse, then it could be penalized in Federal sharing of administrative costs; if it gets better, it could be rewarded. And I think rewards are always better than penalties, particularly since the penalties cannot be imposed.

Finally, let me say by way of summary, I really fear that total reform is not achievable, given present restraints.

The administration is due to propose in a week or two a program for total reform. But it says it will not increase Federal spending for at least several years.

This attitude is unrealistic and, if maintained, clearly dooms the hope for welfare reform. You cannot do more for more without spending more.

I said last week before a group of Congressmen: I think HEW has almost succeeded in making a silk purse out of a sow's ear. But when you look at it closely in the end, it's still a sow's ear. There's no doubt about that.

I personally fear that we're going to witness a major national and congressional debate that will go on for the next year or two or three and will go the same way the FAP program went back in 1970—that is nowhere.

Already the lines are beginning to be drawn. The friends of the poor and the advocates of the poor are saying the administration is being parsimonious. Some of the conservatives in our society are horrified by the notion that you're going to add 10 million more people to the public welfare system.

I don't know whether there's a strategy or just a condition, but I fear the net effect is going to be a tremendous amount of sound and fury but no action.

Therefore, I would urge Congress to consider incremental improvement.

Thank you very much.

Mr. FOUNTAIN. Thank you.

[Dr. Dempsey's prepared statement follows:]

PREPARED STATEMENT OF DR. JOHN T. DEMPSEY, DIRECTOR, MICHIGAN DEPARTMENT OF SOCIAL SERVICES

I welcome this opportunity to appear here today and discuss with this Committee the administration of the AFDC program. I applaud the Committee for making the decision to look into this subject, which I believe is most critical, and I am pleased to have the opportunity to contribute some insights from the standpoint of one who administers a State AFDC program. I would add also by way of introduction that while I have been Director of the Michigan Department of Social Services for two and a half years, and am therefore somewhat new to the welfare system, I served immediately prior to that for four years as State Budget Director in Michigan; so I look at the welfare system from the standpoint of six and a half years of rather close personal association, both from the standpoint of one who had to provide the money, and, more currently, one who has to administer the program.

The purpose of this hearing, as I understand it, is to aid the Committee in commencing and completing a comprehensive review of the administration of the AFDC program. I would like to make several general statements by way of introduction.

First of all, as a State administrator, it is my belief that the administration of the AFDC program is unnecessarily complicated. This condition results from several factors. First, there is the fact that Congress over the years has expanded and altered the character of the AFDC program; because these expansions and alterations were done at different times by different Congresses, and were implemented by regulations put out by the Department of Health, Education, and Welfare at different times, there is a lack of internal consistency. In essence, we don't have a single system built at a given point in time; rather we have a combination of systems which have been put together over the last 44 years.

Secondly, I believe that the administration of the AFDC program has been complicated by the fact that it must be administered by people who also administer other programs. In my State, for example, my agency administers the AFDC program, the State General Assistance Program, the Social Service Program, under both Title IV-A and Title XX of the Social Security Act, the Section 8 existing Housing Subsidy Program authorized by Congress in the Housing Act of 1974, the Medicaid Program; as well as a host of other programs. A first-line worker is expected to be able to administer many different programs established at different times by different committees of Congress and interpreted by regulations issued by different Federal agencies. This, in essence, produces what some people have described as a mess. It is not a mess; it is unnecessarily complicated. Such complications, and the pressures of the job, require a first-line worker to combine the wisdom of a Phi Beta Kappa, the patience of Job, the tenderness of a new mother and the skin of a rhinoceros -- a rare accomplishment.

Thirdly, it is my personal opinion that the unfavorable popular characterizations of the public welfare system are exaggerated. I am frankly a bit sick and tired of hearing about the "welfare mess". I think the welfare system is much better than most people realize. I do believe that it could be made better. It's in that spirit that I have appeared here today.

Fourthly, I welcome the commitment to Welfare Reform made by President Carter and Secretary Califano. I share their purposes and objectives, although I have concerns about some of the details of their proposed reforms. However, it is my personal belief that total welfare reform is some years away. Pending that total reform, I believe there are interim improvements which can and should be made. Frankly, I am most concerned about the character of the Welfare Reform movement. To some, in fact to too many, it has become a panacea. Congress has not considered total reform in eight years. If all congressional attention is focused on total reform, and such is not achieved, the result will be tragic. Accordingly, I recommend incremental improvements, even while total reform is pursued.

My formal statement is divided into two parts: First, a series of comments on behalf of the National Council of State Public Welfare Administrators; second, some personal observations.

The National Council of State Public Welfare Administrators is composed of the officials in each state, the three territories, and the District of Columbia chared with the responsibility for administering public welfare programs. Since its beginning more than 35 years ago, the Council has been an active force in promoting the development of sound and progressive national social policies and in assuring that these policies are responsibly and effectively administered. Its members have witnessed, often with unbelieving eyes, the enormous growth and increasing complexity of this system of assistance and services for people in need. Its members have grown frustrated trying to meet those ever-present needs with limited and inappropriate resources. Its members have weaved in and out of conflict with the Federal government, as we have both pursued our mandate to provide for the public's welfare. And above all, its members have, despite the disappointments and wasted efforts, continued to care.

I have not come here today to reinforce the popular characterization, shared by alarmists of many stripes, that the public welfare system is an abysmal failure. It is not! There are serious problems throughout it, in social services as well as cash assistance. Next to the recipients and beneficiaries, we probably know them better than anyone else; but there are many strengths as well. I believe we should acknowledge its many successes and give substance to its many potentials. Today, our public welfare system provides subsistence to millions of destitute people, social support to millions of families straining against the vicissitudes of life, and care and nurturance to scores of children who need a supportive environment in which to grow. Some times these efforts are inadequate. I also admit that you can't create a better system overnight or without help. It is the deep-felt conviction of the National Council, however, that with the various changes being contemplated by committees of Congress and other changes we would like to see made, the collection of services and assistance we call the public welfare system can be strengthened and improved to more efficiently and effectively meet people's needs. So, I'm here to offer the help and expertise of the National Council of State Public Welfare Administrators in meeting the difficult challenge ahead.

The NCSPWA has suggested several incremental changes in current programs. With overall welfare reform at least a few years down the road, we believe that the following changes would be consistent with such reform and could be instituted much earlier. I hope that you will give these proposals appropriate consideration in the near future. These items are presented in outline form. Our Council and the staff of the American Public Welfare Association stand ready to develop them more fully, should you desire.

1. The AFDC Unemployed Father program should be expanded to an Unemployed Parent program (to include women, as well as men) and should be mandated nationwide with 100% federal financial participation. The rules governing the operation of the new AFDC-UP program should be made consistent with the operation of the "regular" AFDC program. Statutory requirements as to prior work history (Section 407 of the Social Security Act) and the administrative "100-hour rule" should be eliminated. Such refinements are consistent with the Administration's plans, as shared with us.

2. Efforts should be made to develop uniform definitions of income and eligibility for programs like AFDC and Food Stamps. The duplication of effort which is required, and the complication and confusion for front-line welfare workers could be significantly reduced if definitions were to be made consistent. Errors would be significantly reduced.

3. The definition of disability for Titles II and XVI of the Social Security Act should be liberalized. Currently, there are many persons, truly disabled in terms of work capability, who cannot qualify for Supplemental Security Income or Social Security benefits. This places an unnecessary drain on state and local budgets. Provision should be made for these people (such as individuals with problems of alcoholism or drug abuse) to be eligible for Federal benefits.

4. Consideration should be given to a Federal share in the funding of assistance provided to single individuals and childless couples. These groups of individuals are often assisted by

State and local "general assistance" programs. Due to the variety of State and local programs which exists, some standards may have to be developed for determining which programs would be eligible for Federal contribution.

5. The Emergency Assistance Program, described in Section 406 of the Social Security Act, has been interpreted by several court decisions to cover a very wide range of emergencies. As a result, several states have chosen to withdraw from the Federal program rather than meet the very high costs that the program entails. We urge Congress to revise that section of the law to place realistic limitations on the emergencies states must respond to if they are to be eligible for Federal assistance.

I would like next to present a few suggestions on behalf of myself, and the Michigan Department of Social Services. I'm sure many of my colleagues in other states would agree with my positions, but I do not profess to speak for them today.

One of today's most urgent needs in the area of welfare reform is that Congress and the Department of Health, Education, and Welfare review Title IV-A programs as a whole and seek to provide clarity and remove unnecessarily complex procedures. Federal legislation and rule-making all too often take on a fragmented approach, resulting in regulations which are often inconsistent with other program requirements and which make our present welfare programs extremely complex and difficult to administer.

Many of the present federal regulations have been promulgated with the intent of responding to human need in specific circumstances. However, these efforts to respond to individual needs and circumstances have often sacrificed administrative efficiency, created the potential for higher errors, and added to the length of time required to determine eligibility for many recipients.

A great deal can be accomplished within the present IV-A programs which will maintain and increase responsiveness to human need, and at the same time increase administrative efficiency. To accomplish these goals, both Congress and HEW must make specific changes in the Social Security Act and the Code of Federal Regulations. Beyond this, however, there must be a real understanding at the Federal level that administrative procedures which will be compatible with all 50 states and territories cannot be drafted by HEW. Uniformity is achieved at very great cost.

Following are specific recommendations which will result in overall improved administration of the present IV-A programs. These recommendations are divided into four major areas:

I. Changes which will provide greater administrative efficiency and reduce error potential.

   A. The present regulations relating to earned income disregard and expenses of employment are time-consuming, error prone, and complex. They should be simplified. Although agency errors involving computation of net income have declined significantly, the present system requires utilization of separate tables for Federal and State income tax and Social Security. In addition, local office staff must review and retain numerous recipient records for employment related expenses.

I also urge that the present system of earned income disregards and expense of employment be replaced with a policy which provides single percentage disregard of gross earned income of from 25%-50%. Such a policy would eliminate time-consuming and complex manual computations and reduce the content of periodic recipient reports. More positively, many states, including Michigan, could easily convert determination of net income to an automated process and free local staff time which can be used more advantageously in dealing with recipients. Michigan, at present, has automated a substantial portion of the grant determination process and additional steps are in the planning stage. Modification of Federal rules regarding net income determination would result in significant administrative savings.

B. Many of the existing administrative problems within the current system are caused by the lack of coordination between programs. Differences in eligibility and income requirements between programs cause burdensome duplication of work on local office staff and unnecessary delay in providing assistance to needy recipients. No problem is more difficult; yet there is a conceptually simple solution.

Administrative changes at the Federal level could result in increased efficiency for tax dollars spent and insure more effective delivery of services to recipients. Specific recommendations in this area are:

1. Placement of the administration of all welfare programs under one Federal agency, i.e. the Department of Health, Education, and Welfare.

2. Provision for standardized treatment of income and resources for all welfare programs. Although it is not necessary for all programs to have the same income and resource maximums, the computation of an individual's resources should be standardized.

3. The cashing out of food stamps for recipients of public assistance. The Food Stamp Program could be retained as a separate resource for those who do not qualify for, or desire, public assistance.

4. As an alternative to number 3, I recommend elimination of a separate food stamp eligibility determination for AFDC families; that AFDC grants and Emergency Assistance benefits not be counted as income for food stamp eligibility; and, that the standardized allowances for heating, fuel and utilities be used for determining credit for shelter payment.

II. Changes in Federal language which will provide greater specificity and clarity to State agencies administering the AFDC program.

Ambiguities in language contained in the Code of Federal Regulations for two important areas continue to cause problems for state agencies. These areas are continued absence, as it related to AFDC eligibility, and the definition of currently available income. Specific comments are:

A. The Social Security Act and Federal regulations should be amended to provide specific criteria for AFDC eligibility based on continued absence. Present guidelines contained in Federal regulation are vague and can only be interpreted through subjective means. For example, present regulations in 45 CFR 233.90(c)(1)(iii) provides for eligibility when the parent's absence "...is such as either to interrupt or to terminate the parent's functioning as provider of maintenance, physical care or guidance for the child, and the known or indefinite duration of the absence precludes counting on the parent's performing of his function in planning for the present support or care of the child...."

Cases in which an absent parent is imprisoned, deceased, deported, or when parental rights have been terminated present no major problems in determining that a parent's functioning has terminated or has been interrupted for a period of time. However, problems have been encountered by State agencies attempting to implement the vague language of the regulation as it applies to voluntary absences, i.e. voluntary separations involving no legal action, or situations in which a father has left the State to look for employment. The regulation is completely devoid of any objective standard to determine when a child may be eligible.

Michigan Quality Control statistics for July-December 1976, indicate that errors in continued absence account for 23.8% of misspent funds, or $17.5 million annually. I have found that client error is a factor in over 80% of the errors involving continued absence.

I strongly urge that language be included in the Social Security Act and HEW regulations which will provide an objective standard for continued absence. A durational requirement of from 30 days to 60 days would be extremely helpful. In addition, State agencies should be allowed to develop objective criteria to determine the continuing nature of the absence. Eligibility based on continued absence solely for military service should be eliminated.

B. Currently Available Income

Language in Federal regulations which will more adequately define currently available income would be extremely beneficial to State agencies.

The terms "currently available" or "actually available" were originally utilized in Federal regulation to prohibit State agencies from assuming income that was in fact never available. The problem at this time with lack of definition of "currently available", occurs in efforts to develop a uniform client reporting system for state-wide use.

It is impossible to budget income when it is currently available. In other words, the income received by an AFDC recipient in July cannot be considered in determining the amount of July's assistance grant. Consideration of income expected to be available (projected income) lends itself to inaccuracies and offers no administrative advantage to the Department.

My intent is to consider only income that recipients have actually had available to use. I have sought to utilize an interpretation of the HEW General Counsel which recognizes that the State agency administrative system may consider income in the second month after the income has been received. Although I have sought for over a year to obtain greater specificity from HEW regarding "currently available", I have been unable to have the issue clarified. I have, however, proceeded on the basis of our best understanding of the intent of Congress and the courts regarding available income. Yet, some day HEW may well say we are not acting properly.

I recommend changes in the law and Federal regulation which will permit a State agency to consider income a recipient has actually had available for use, and that such income be considered within the State's administrative system. Further, I recommend that Federal regulations clearly permit states the option to develop either retrospective or prospective systems of income budgeting. Such an option must recognize the variance among State agency administrative systems.

III. Changes in the law to enhance state administration of the AFDC program.

Recent experience in Michigan has caused the Department of Social Services to focus on specific areas where changes in the Social Security Act are needed. Language is needed in three specific areas which will either provide State option in three specific areas or increase the existing latitude in the Act. The areas in which I recommend changes are as follows:

A. State Sponsored Employment and Training Activities

The Social Security Act currently requires that each non-exempt member of the AFDC eligible group register for and participate in the Work Incentive Program. The Act further provides sanctions for persons who fail to register for or participate in WIN without good cause.

Current HEW regulations do not permit states to develop employment and training programs which would complement WIN. There are many AFDC recipients presently registered for WIN who have not, and will not, be selected for a WIN training position and, therefore, will not be placed in the employment market through WIN activities due to WIN funding limitations.

Most states, and especially Michigan, have the resources currently available to develop employment and training programs for persons not participating in a WIN component. However, we have been prohibited by HEW from moving in this direction.

The U.S. Supreme Court decision in the case of New York Department of Social Services v. Dublino established that states may require participation in a state work program as a condition of eligibility so long as such work requirements were not arbitrary and unreasonable and were not in conflict with specific provisions of the Social Security Act. However, the Dublino decision is subject to varying interpretations and the issue is further compounded by the lack of definitive Federal regulations in this regard.

Federal regulations denying FFP for payments made under community work programs (45 CFR 233.140) were rescinded on November 4, 1974, and reinstated on January 13, 1975. The reason given for this change was that "the Department (HEW) is presently developing a rule to establish criteria for State work programs consistent with Dublino and for Federal financial participation therein." No such rule has yet been promulgated, although two and one half years have elapsed.

Our own studies indicate a potential annual savings of $3.8 million per year in Michigan alone through State employment and training activities. I urge that appropriate legislation be enacted which will enable states to move in this direction.

B. Vendor Payments

I recommend changes in the Social Security Act and HEW regulations which will provide greater flexibility than now exists in the utilization of vendor payments.

Current guidelines allow vendor payments only in certain WIN sanctioned cases and in cases which money mismanagement may threaten the health and safety of an eligible child.

State agencies would often be able to insure that AFDC families are able to secure much improved housing, utility, and heating fuel services through broader utilization of vendor payments. Providers of these services are frequently reluctant to assist a recipient when the State agency cannot provide reasonable assurance that payment for services will be made. Landlords who rent to recipients are often unwilling to make necessary improvements in situations where uncertainty about rent payment exists. Although clients have frequently been willing for the Department to initiate vendor payments, we have been prohibited from complying with such requests.

In recent months, the State Legislature has sought to enact legislation which would permit vendor payments for shelter on a volunteer basis or upon the recommendation of a social worker. However, I have had to advise that such legislation was contrary to HEW regulation.

HEW guidelines which speak of the concept of an unrestricted money grant and the value of such a payment to recipients are commendable. However, the guidelines also appear simplistic in face of a situation which prohibits a recipient from moving into a HUD sponsored development because the State agency cannot make a vendor payment based on choice. H.R. 7200, now before the Senate, will help in this regard when, and if, enacted into law.

C. Emergency Assistance

The Emergency Assistance Program, authorized under the Social Security Act, provides that emergency assistance may be granted and federally matched for only one 30-day period in a period of 12 consecutive months. However, if a recipient is faced with an emergency which falls outside the 30-day period, responsibility for meeting the need falls entirely upon the State.

I recommend that the law be changed to provide for Federal matching funds for emergency assistance whenever the need arises. States could well establish protections to keep possible abuse at a minimum.

D. Income Exclusions

Current Federal law now excludes from consideration for eligibility purposes a number of types of unearned income. As a result of these exclusions, a number of AFDC recipients receive substantial benefits from other programs. Consideration of such income would result in ineligibility in many instances and discontinue the practice of some recipients receiving duplicate benefits from other Federal programs.

I recommend the elimination of existing exemptions for grants and scholarships, volunteer income, and grants to special classes of recipients.

IV. State Options

The day-to-day administration of Title IV-A programs is carried out entirely by State and local agencies. Although I readily acknowledge the Federal-State relationship in funding and program direction, Federal administrative staff must realistically recognize State agency capabilities and problems and not attempt to impose management practices and procedures on each of the states.

In order to maximize available local resources in meeting human need, State agencies must have options in administrative techniques and procedures. Two specific examples of this type of State agency option are as follows:

A. State agencies should continue to obtain verification of eligibility factors and have the option to target error prone cases. I do not believe a Federal requirement in this area would be productive.

B. State agencies should determine the accounting period used in determining the amount of the assistance payment. A State agency is best suited to determine its administrative capability and recipient characteristics and fit the two together. Further, a State agency can respond to improved technology more rapidly without efforts to secure a change at the Federal level.

Finally, a few brief words about fraud. I believe there has been too much "posturing" on this subject. Fraud is much less prevalent that public attitudes suggest. Even if fraud is as widespread as some suggest, it is certainly less than five to eight percent of dollars spent. I doubt that very many institutions have records as good as this (and I include private business in this group).

Nonetheless, in the effort to minimize fraud, legislative and administrative bodies establish a host of regulations and requirements, all of which substantially increase costs. Someone _must_ look at cost/benefit ratios.

In Michigan, we could virtually eliminate fraud if we substantially increased staff. Doubling my staff would cut fraud by 50-75%.

Doubling my staff would cost about $180 million. If fraud today is 5% (and I believe it's less), it runs about $100 million at the maximum. Thus, to save $50-$70 million, we might well spend two or three times as much.

Another important point must be made: in our efforts to reduce fraud in Medicaid, for example, we have established many reporting and procedural requirements. One result is incurring the refusal of some most compentent providers to participate in Medicaid. The fewer professional providers who do participate, the more instances of fraud and neglect.

Summary

In essence, I have tried to make several major points:

1. I believe the present system is unnecessarily complicated, largely because it is an amalgam of many different systems and programs, established at different times to achieve different purposes, and interpreted -- sometimes most narrowly -- by different Federal agencies.

2. A second major problem is the tendency of the Federal government to attempt to specify, by law or regulation, detailed behavior by workers or clients. Each detailed specification causes confusion and helps produce errors.

3. Although (as in Michigan) states frequently spend more money in public assistance programs than the federal government, the Feds call *all* the shots and deny us appropriate flexibility. *We* can be trusted; we should be.

4. Total reform is needed, but will take time. Why wait? Significant reforms are possible in the present IV-A programs. Such reforms can be accomplished in a relatively short period of time if Congress and HEW do desire that improvements be made in the present system. Changes as recommended are aimed at meeting human need in a more timely manner and improving administrative efficiency through specific language and clarify in Federal guidelines.

5. The advantages of reform within the present IV-A program framework are in the fact that administrative costs are predictable and State agency systems can accommodate changes more effectively. Therefore, it is urged that prompt Congressional action be taken to improve the existing public welfare programs.

6. I really fear that total reform may not be achievable given present constraints. The Administration is due to propose -- in a week or two -- a program for total reform. However, it says it will not increase Federal spending for at least several years. This attitude is unrealistic and, if maintained, dooms the hope for welfare reform. You cannot do more -- for more -- without spending more. Consequentl I fear we may witness a major national and Congressional debate which will end in inaction. Such would be lamentable. Accordingly, I urge this Committee -- and Congress -- to seriously consider short-range improvements which can be done with little or no cost and which can help.

Mr. FOUNTAIN. Dr. Ginsberg?

STATEMENT OF DR. LEON GINSBERG, COMMISSIONER, WEST VIRGINIA DEPARTMENT OF WELFARE

Dr. GINSBERG. Thank you, Mr. Chairman.

I am Leon Ginsberg, commissioner of welfare for the State of West Virginia. I have been in that position since January when I was appointed by Gov. John D. Rockefeller IV. I spent 14 years prior to that time as professor of social work at the University of Oklahoma and dean of social work at West Virginia University.

I appreciate being invited to appear before this subcommittee, and I hope that I can be of some help to you.

I have been involved—as Dr. Dempsey indicated he has been involved—in the discussions and the debates about welfare reform. I appeared before Secretary Califano at his meeting on welfare reform, and I have talked to the welfare reform consulting group on a couple of occasions—generally as a representative of rural areas in the United States, which I think have special problems.

I want to indicate that I commend your staff for their report on the administration of the AFDC program. It was an excellent document, and we're going to use it in our staff training program to help our workers better understand the AFDC program. It is a most impressive piece of work.

It raises a number of questions that I don't have time to answer—and on some of them I have no opinions—but I'll try to highlight some of the things that have caused me the greatest concern and that I think are most crucial to a reform in the AFDC program.

I think there needs to be a series of changes in AFDC if it's going to be improved.

Fundamentally, I think there are three basic programs and problems that need to be changed. First of all, I would support a nationwide standard set of eligibility requirements; second, common basic payment levels for recipients in all States; and third, a simplification of the eligibility determination process. These are somewhat similar to the issues that Dr. Dempsey raised.

I think that standard eligibility requirements would just codify and complete a process that is already going on throughout the United States. The differences among the various States are very small, except for the levels of payments. The eligibility requirements vary according to certain kinds of lien requirements and asset considerations. I think the Washington Post talked about a crazy patchwork of eligibility requirements that vary from State to State and don't make a lot of sense.

Many times these policies result from some kind of legislative or administrative action that is designed to deal with a few troublesome cases and doesn't really deal with the whole problem of the welfare community, or the welfare client group, and I think they probably just cause us a lot of difficulty. They are very costly and complicated, and they tend to deny benefits to the few people who may not be technically entitled to assistance under State law but who may be very much in need anyway.

I think the common basic payment levels for recipients in every State could serve as a national floor for low-income families with dependent children. I think that floor should be the same everywhere and should not vary by region or between metropolitan and nonmetropolitan areas.

States could supplement that basic payment, but we have variations that make no sense at all that aren't based on the economic strength of the State and aren't based on the needs of the people of the State but are based upon local and State political decisions instead.

I think we could depoliticize and simplify much of the welfare system and the AFDC program by setting a common floor—a basic floor—for welfare payments.

I also think it could have many other valuable social consequences, such as reducing the rural to urban migration trends, helping to keep the population distributed more equitably in the United States, and so forth.

I think there's a need for simplifying the application process. I would prefer that we use the declaration system that was attempted in the late 1960's but dropped almost everywhere.

I wasn't employed by the department of welfare in West Virginia at the time it was tried, but I was an interested observer as the dean of the school of social work in the State. I thought it worked. In fact, my statisticians tell me that there was no significant difference in error rates under the simplified declaration system and the rather tedious interviews, home visits, and complex eligibility determination that we perform now.

There are several different kinds of eligibility for several different programs in West Virginia, as there are in most States, which is wasteful.

I think that there have been several experiments funded by Congress and by the Department of Health, Education, and Welfare in rural and urban areas that have gone on for several years. All of them indicate that the declaration system, which is similar to that used by retailers and banks in establishing credit and by Internal Revenue in collecting taxes, works about as well as the systems we use now.

I think the complexity of the application process is one of the more costly and least cost-efficient activities of American Government.

I don't think they are used accidentally. I think they satisfy part of the public that our poor citizens are not cheating the system. But I also find that some of the strongest critics of AFDC are those who become enraged when they discover, when they need help or their parents need help, that receiving welfare is much too complicated and much too demeaning—not intentionally, but just because of its administrative arrangements.

So, a national floor for AFDC, a standard and national eligibility requirement, and a simplified declaration process would satisfy me as major improvements in the AFDC program.

I would also urge that we continue with, and build on, work requirements as a part of the public assistance system. I think the work requirement program and work incentive program—called WIN—has not been as successful in all places as it has been in West Virginia. We're fairly satisfied with our collaborative arrangements with the department of employment security in operating the work incentive program. We administer the program together, locate the staff together, and we find that most people who are able to be employed are employed under WIN in one way or another.

We have the AFDC-U program—the unemployed program that Dr. Dempsey talked about. We have fewer than 1,000 cases statewide, largely because many people who would be such recipients are recipients of jobs through WIN.

I think, to continue with that theme, that it would be helpful to recognize that all of the work programs and public assistance are all part of a total program of economic security.

I think that we could reasonably merge all of the economic security programs—AFDC, WIN, unemployment compensation, employment services, workmens compensation, veterans benefits, OASDI, and CETA—and talk about a comprehensive economic security program of the Department of Health, Education, and Welfare and the Department of Labor, and the food stamp program of the Department of Agriculture.

All of these together should constitute a range of services, I believe, which would make it possible for people to receive short-term service when they need that and long-term assistance when they need that and work training and placement when that's possible.

They are all part of the same effort—to provide economic security for our citizens. Most people, contrary to public stereotypes, don't become lifelong welfare recipients. They move in and out of various systems throughout their lives. I've watched this among many families over a long period of time.

The problem is economic security through cash assistance or through jobs or a combination over t[illegible] both.

I want to mention one o[illegible]ssue related to social problems in the United States, and that's the social services ceiling in title XX of the Social Security Act.

I've had very little success in working with Congress in getting an increase in the ceiling on title XX expenditures for social services. I think H.R. 7200 only provides for making permanent a $200 million increase in title XX ceilings that was actually implemented last year.

The title XX ceiling—this is the ceiling on the Federal funds matchable in social services—has not been raised for 6 years. There has been inflation and increased demand for human services. The population is growing older. We all know, I think, that the increasingly older population means that more and more people receive and need public assistance and welfare services.

All those things have happened, but the ceiling hasn't changed. So, in West Virginia, we have reached in the last fiscal year our ceiling for the first time. This year, in order to just continue the programs that we had funded last year, we had to increase our State appropriation for social services by $5 million which took a major effort and a lot of understanding on the part of the legislature.

But that was just to stand still, to meet the increased salaries and the increased caseload in very useful activities that are really designed to keep people off welfare or to take them off—programs such as homemaker services, chore services, group meals, delivered meals, day care, child protective services, and all of these things that reduce the welfare load and take people off of medicaid and get them out of nursing homes and keep kids from growing up in situations that will maintain them as poor. It is at a much lower cost than public assistance or medicaid cares for them.

If there were an increase and we were able to provide the services, we could take care of an older person in his or her own home through homemaker or chore services for one-fifth or one-tenth the cost of 1 month in a nursing home. But sometimes, because of the strange funding patterns, it's cheaper for the State to keep a person in a nursing home, than to provide them chore services.

It is a very strange situation.

Let me just discuss briefly the question of personnel—one that is close to me and that your staff raised—about the AFDC program.

In many States, including West Virginia, eligibility technicians have no specific educational requirements, the staff said. They also talk about the separation of eligibility and services which was mandated several years ago, and they now say it's possible because of title XX to recombine those two categories of workers.

I would endorse, first of all, the continued separation of eligibility and service worker categories in West Virginia, at least.

The idea behind it was that minimally prepared individuals would be able to handle a large number of cases at a relatively low cost if they only did the technical work of eligibility determination.

I think that's been a valid assumption. I think it's been proven to be accurate. Of course, minimally educated people need supervision by better prepared professionals. I think standards have to be applied for educational qualifications among supervisory personnel of eligibility technicians.

I also think that when we combine eligibility and service functions, we suggest that anybody who is poor is also socially disturbed, or a socially problematic person. I don't think that's true, and I think it's a message we do not want to convey.

In terms of whether or not there are enough people to staff the public welfare agencies, I can document that there are enough people educated to fill eligibility and service positions in departments of welfare when they are properly employed.

There are thousands of professionally educated social workers graduated each year from colleges and universities throughout the United States. Most of their educational programs are funded by our State agencies under title XX exempt educational programs.

We pay 75 percent of the cost of education through Federal funds, and the schools pay one fourth of the cost. However, many of the graduates can't be employed by the agencies because of civil services practices and standards. That's a paradoxical situation.

There need to be some standards established on a national level, I think, for workers in social services. We need to find ways to employ these qualified people.

I have some comments about error-prone profiles and quality control systems. I would only commend to you the notion of the error-prone profile approach which West Virginia uses in its quality control efforts.

Our quality control efforts have been fairly successful. Our rate was 2.9 percent during the last reporting period, which is considerably lower than the national average. We have consistently been lower than the national norms.

The way we do it is to put the emphasis on the 25 percent of the caseload in which 95 percent of the errors occur. We have a fairly sophisticated system that checks very carefully on people who are likely to be error prone—very much as Internal Revenue does—and almost not at all on people who are unlikely to be error prone.

I have that information with me for the subcommittee. Of course, it is public information.

I also want to mention the need for the sharing of information between States when it comes to quality control, because West Virginia is a State in which most of the people live on borders with other States and it is possible for there to be duplicate cases between us and Virginia, Pennsylvania, Ohio, and Kentucky, some of which have the capacity to share information with us and others which don't.

I hope that we can improve the AFDC program. I hope that there can be demonstrations and documented experiments on some of these issues if we're not able to make national changes at this time.

Our Governor, John D. Rockefeller IV, has offered our State to the Department of Health, Education, and Welfare and, of course, to the subcommittee as a site for experiments in efforts to innovate in the administration of AFDC. We are ready and willing to assist in any such effort.

Thank you for the opportunity to speak with you.

Mr. FOUNTAIN. Thank you very much.

We have a vote on the floor; the subcommittee will stand in recess.

[Recess taken.]

[Dr. Ginsberg's curriculum vitae and prepared statement follow:]

West Virginia Department of Welfare

LEON H. GINSBERG, Ph.D.
Commissioner

LEON H. GINSBERG, Ph.D., formally assumed his responsibilities as the Commissioner of the West Virginia Department of Welfare within the administration of Governor John D. Rockefeller, IV on January 18, 1977. Prior to his appointment as the State's 12th Welfare Commissioner, he held the post of Dean of the School of Social Work at West Virginia University.

A 1957 graduate of Trinity University in Texas, Commissioner Ginsberg received his master's degree in social work from Tulane University in 1959 and completed his doctorate in political science at the University of Oklahoma in 1966. His dissertation delved into the area of civil rights of the mentally ill and mentally retarded in Oklahoma.

Commissioner Ginsberg launched his professional career as a social work practitioner in New Orleans, Louisiana and Tulsa, Oklahoma. His work in these localities between 1958 and 1963 focused on Jewish youth programs, services to the aging, inter group relations, and children's mental health services.

In 1963, Commissioner Ginsberg was appointed Assistant Professor of Social Work at the University of Oklahoma and became an instructor in the field while completing his Ph.D. requirements in political science. In 1966, he was promoted to Associate Professor of Social Work and served on several doctoral committees in social psychology and general psychology, while also providing instruction in the areas of social group work, community organization, administration and social components of human behavior.

During his early academic career, Commissioner Ginsberg became actively involved as a consultant and trainer for a variety of social welfare organizations such as the Peace Corps, VISTA, Head Start, Oklahomans for Indian Opportunity, the Bureau of Indian Affairs and the Oklahoma Department of Welfare. He also directed a child care works training course for Oklahoma's institutions for children and Project Peace Pipe, a program designed to recruit American Indians for service in the Peace Corps.

The San Antonio, Texas native accepted the appointment of Director of the Division of Social Work and Professor of Social Work with West Virginia University in July of 1968 and was elevated to the post of Dean of the School in February of 1971. As such, he directed both the undergraduate and graduate programs of the school which encompassed a faculty of 30, an undergraduate student population of 200 majors, and approximately 204 full and part-time master's degree candidates at both the Morgantown campus and the State's College of Graduate Studies near Charleston. During his administration, the school also pursued an extensive manpower research and training program, field instruction activities throughout the Appalachian region, community-based continuing education projects, and consultant services to various social welfare and health agencies throughout the United States.

During a professional sabbatical between August of 1974 and January of 1975, Commissioner Ginsberg served as Visiting Professor at Universidad Pontificia Bolivariana in Medellin, Colombia and at Pontificia Universidad Javeriana in Bogota, Colombia. In addition to offering instruction to post-graduates at both universities in social work management, Commissioner Ginsberg served as a curriculum consultant, developed training for social work Peace Corps volunteers in Colombia, and conducted a workshop for the country's social work administration professors.

Awarded the Distinguished Service Award by the West Virginia Welfare Conference in 1970 and the Citation of Merit by the Southwestern Region Anti Defamation League in 1968, Commissioner Ginsberg's professional affiliations span the National Association of Social Workers, The American Public Welfare Association, the National Conference on Social Welfare, the American Association of University Professors, the American Political Science Association and the Association of Jewish Center Workers. Additionally, he has served as Treasurer and a member of the Board of Directors and Executive Committee of the Council on Social Work Education, the national accreditation organization for both undergraduate and graduate schools of social work. His activities with the national organization have also entailed chairmanship for its 1976 Annual Program Meeting and its Rural Social Work Advisory Committee.

A respected leader of the national social work community, Commissioner Ginsberg's contributions to the field have included co-editorial responsibilities for *Life-Span Developmental Psychology: Theoretical and Applied Perspectives* (New York: Academic Press, 1975) and the editing of *Social Work in Rural Communities* (New York: Council on Social Work Education, 1976). In addition, he has authored numerous articles in professional journals, including *Social Casework, Social Work, Public Welfare, Encyclopedia of Social Work, Child Welfare, Mental Hygiene, Growth and Change* and *The Nation*.

A sought after speaker and workshop leader, Commissioner Ginsberg has also explored such topics as the civil rights of the mentally ill, training for social work in rural settings, and human services in the 21st Century at national, state and local forums. Pursuit of his profession has also involved Commissioner Ginsberg in program exchanges with Israel, Wales, Holland, England and various African nations, in addition to his Central and South American placements.

Commissioner Ginsberg and his wife, Elaine, an Associate English Professor at West Virginia University, are parents of three children: Robert, a midshipman at the U.S. Naval Academy, and Michael and Meryl, high school students in Morgantown.

PREPARED STATEMENT OF DR. LEON GINSBERG, COMMISSIONER, WEST VIRGINIA DEPARTMENT OF WELFARE

Thank you for inviting me to appear before your Subcommittee and I hope I may help you to improve the administration of the Aid to Families with Dependent Children program.

During the past several months, I have, of course, devoted my attention to improvements in the public welfare program. I have met with the Welfare Reform Consulting Group and I appeared before Secretary Joseph Califano at his March 10 hearing on Welfare Reform. I am distributing, along with this testimony, copies of the presentation I made to Secretary Califano so your Committee may be aware of some of the positions I have taken on that different but closely related subject.

My staff and I were aided in preparing this testimony by the excellent report on the subject developed by your staff. We plan to use their publication in orienting and training our own staff members to better understand and more effectively carry out the responsibilities in the AFDC program.

Your staff raises a series of crucial issues for those who are testifying. I will not have time to answer nor do I have opinions on all of them. Instead, I will speak on several matters I want to call to your attention and which I believe to be fundamental to improving AFDC.

The AFDC Program, In General.

A series of major changes would be beneficial to the operation of the AFDC program. Specifically, I would recommend the establishment of nationwide standard eligibility requirements, common basic payment levels for recipients in all states, and a simplification of the eligibility determination process.

Standard eligibility requirements for every state would simply complete the process of insuring consistent programs for AFDC recipients throughout the United States. The differences among the states, except for the level of payments, are not significant. The few differences are in lien requirements and asset considerations. Frequently such state policies result from legislative or administrative action designed to deal with only a few troublesome cases. These requirements serve primarily to complicate the administration and deny benefits to a small number of families who do not meet technical requirements for assistance but who may be very much in need.

Common basic payment levels for recipients in all states could serve as a national floor for low-income families with dependent children. That floor, I believe, should be the same everywhere and should not vary by region or between metropolitan and non-metropolitan areas. States, at their option, should be able to supplement the basic payment.

I think that a minimum national floor would de-politicize, from the local and state levels, at least, the fundamental assistance payment for needy families. It appears to me that the variations in AFDC payments between states are closely related to local and state politics rather than to the economic strength of the state or to the needs of the families. I think that establishing this basic payment level would resolve many of the problems currently encountered in AFDC.

There is a need for simplification of the application process. I favor a return, on a national basis, to the declaration system that was attempted in the late 1960's but dropped in most states. I think that a simplified declaration system which could be completed by the applicants without personal interviews, home visits, and tedious verifications, would be effective in establishing eligibility rapidly and in delivering economic assistance to needy people with dispatch. The West Virginia experiment with the declaration system for eligibility determination showed that there was little difference in terms of errors between it and the more complicated processes that we now use. I think this has been demonstrated in a variety of federally funded experiments in rural and urban areas.

The declaration system is similar to the systems used by retailers and banks in establishing credit and by the Internal Revenue Service in collecting taxes.

I am convinced that the complexity of the AFDC application process is one of the most costly and least cost-efficient activities of American government. Perhaps these processes satisfy part of the public that our poorest citizens are not cheating the system. But I doubt that it is totally convincing. In fact, I find that many of the strongest critics of AFDC are those who are enraged because they discover how difficult it is to ask for and receive "welfare" when they need it.

In summary, I think we need a national floor for AFDC, I think that there needs to be an established standard eligibility requirement, and I think that a simplified declaration process would improve the program.

Work Requirements

I would endorse the requirement that those who apply for assistance be required to work if they are able to do so. The West Virginia Department of Welfare has had a high degree of success in collaboration with the West Virginia Department of Employment Security in operating the Work Incentive program. We locate the Employment Security and Welfare WIN workers together and that co-location and joint administration has made it possible for us to successfully place most of the applicants who would otherwise be recipients of AFDC.

In fact, I think it would be useful for all of us to recognize that the various work programs and public assistance are all part of a total program of economic security for American families. I do not think it would be unreasonable to merge all of the economic security programs such as AFDC, WIN, Unemployment Compensation, Employment Services, Workmen's Compensation, Veterans Benefits, Old Age Survivors and Disability Insurance, Concentrated Employment and Training Act services--in other words, all of the economic security programs sponsored by the Department of Health, Education and Welfare and the Department of Labor. Together, these programs constitute a range of services which make it possible for people to receive short-term assistance when that is required, long-term assistance when that is required, and work training and placement, when that is possible. These programs are all part of the same effort and all reach for the same objective--that of economic security.

The fundamental problem is economic security which can be met through cash assistance or through jobs or a combination, over time, of both. I would hope that these efforts could be merged into a single agency designed to assist families who are in need.

Title XX and Social Services Ceiling

Although it may appear to be removed from the AFDC program, the social services program of the Social Security Act, under Title XX is closely related to everything that a department of welfare does in providing for the economic security of its clients.

The Title XX ceiling has not been significantly raised since it was originally imposed six years ago. Inflation, increased demand for human services, and an increasingly older population have all made such demands on Title XX that many states, including West Virginia, have reached and far exceeded their Title XX ceiling. For example, in our state we are currently spending everything that is available to us for Title XX social services programs from the federal government, including the state matching portion required to obtain these funds, plus a generous appropriation of state funds, to meet the social services needs of West Virginia.

I would suggest that social services are an important factor in rendering the AFDC program effective. Through social services, we are able to keep families together by means of chore services, homemaker services, group and delivered meals for older adults, as well as day care for working parents, and child protective services in the homes of the children, themselves. All of these remedial and service programs can, we believe, reduce or at least contain the cost of AFDC However, we are unable to expand our social services programs because there has been no increase in the federal funding. Therefore, any effort to improve the quality of the administration of AFDC ought to consider the magnitude and quality of the social services programs as well.

Personnel

Your staff has prepared extensive statements on personnel working in the AFDC program. They have noted that in many states, including ours, eligibility technicians have no specific educational requirements. They also note that the separation of eligibility and services was mandated several years ago but that it should now be possible to re-combine those two categories of public welfare workers.

I would endorse a continued separation of eligibility and service worker categories. The rationale for the separation was that it should be possible for minimally prepared individuals to handle a large number of eligibility cases at relatively low cost, if they were responsible only for eligibility determination and not for social services. That has proven to be a relatively valid assumption. Our eligibility staff members perform their functions with few errors and seem to achieve the kinds of objectives that we set as well as the objectives that are set for the total AFDC program. Of course, minimally educated workers may need the supervision of better prepared professionals and we do require increasingly high qualifications for eligibility employees as they move up the administrative ladder.

I am also in favor of continued separation of eligibility and service functions because of the connotations of combining them. The message seems to be that those who have economic needs must also have social and/or emotional problems as well, which is not always the case.

In answer to another staff question on personnel, there may be a sufficient pool of satisfactorily educated people to fill the eligibility and service positions in departments of welfare if they are properly employed. Thousands of professionally educated social workers are graduated each year from colleges and universities throughout the United States. Many of the programs from which these professionals graduate are funded by the training provisions of Title XX of the Social Security Act, through grants by state public welfare agencies, such as mine, to educational institutions, which pay one-fourth of the cost. However, many of the graduates cannot be employed by the agencies that sponsored their educations because of civil service practices and standards. Therefore, there is currently a paradox in the public welfare field--a large number of professionally educated social workers who are committed to and positive about public welfare, as well as professionally educated in working in it, cannot find employment in our agencies. Public welfare agencies, on the other hand, have a variety of staff members from a variety of backgrounds, many of whom are not committed to the field and who leave at the earliest possibility to work in the disciplines for which they have been educationally prepared. Some changes in state civil service requirements and some mandating of educational standards for workers in public welfare agencies from the federal level could overcome this wasteful imbalance, which frustrates many well-prepared professionals and also fails to serve clients as adequately as possible.

If those who are prepared for careers in public welfare were employed in social service positions and in some of the senior eligibility specialist roles, there could be a shortage of professionally educated social workers in the United States.

Fraud, Abuse, and Quality Control

Quality control is an essential element of the evaluation and administration of any program. I am generally impressed with the use of quality control in monitoring state AFDC efforts and I think it might be the appropriate means for determining whether or not a program is operating effectively and for also avoiding future problems in the administration of such programs.

We have found it effective to use a selective quality control mechanism and an error-prone profile system for re-determining eligibility. Through the use of this system, we are able to put quality control emphasis on the twenty-five percent of the case load in which ninety-five percent of the errors occur.

Error-prone profiles help us predict, in advance, which clients are likely to have errors in their cases.

We are reasonably satisfied with our quality control efforts and our error-prone profile system.

I think that a sophisticated quality control program is essential to the kind of national administration and the simplified eligibility determination and declaration systems that I proposed earlier.

I also think that national efforts are needed to insure that there are interstate comparisons of welfare cases. As a state in which the bulk of the population live on borders with other, larger states, our department is particularly aware of this problem.

Conclusion

I would conclude by again thanking the Subcommittee for this opportunity to share some of our thoughts, to share some of my observations on AFDC with you, and to commend the Subcommittee for its study as well as its staff for its preparation.

I think it is clear many things can be attempted in efforts to improve the quality of the AFDC program. I would hope that well-designed and documented experiments would be attempted on limited issues of the AFDC program, including some of those modifications that I have proposed in this testimony.

Our Governor, John D. Rockefeller, IV, has offered West Virginia as an experimental site to the Department of Health, Education, and Welfare for efforts to study, improve, and reform U. S. welfare services. I am pleased to reiterate that offer to the Subcommittee. West Virginia would be pleased to be considered as an experimental area for innovations in the administration of AFDC.

Mr. FOUNTAIN. We will resume our hearings.

Mr. Jornlin?

STATEMENT OF ROBERT E. JORNLIN, SOCIAL WELFARE DIRECTOR, CONTRA COSTA COUNTY WELFARE DEPARTMENT

Mr. JORNLIN. Thank you, Mr. Chairman.

I have given you a fairly lengthy statement which I will try to summarize so there will be more time for questions and answers.

As you know, I am not a State director—I happen to be a local director—so I will probably bring to the subcommittee this morning some viewpoints from local observations.

I think one of the reasons why this subcommittee might be talking about AFDC, as against other programs, is that I believe it is a political dilemma, rather than just a social problem.

I think that for many years the public has been incensed over the repeated reports of the failure of parents to perform in a responsible way with reference to their obligations to support and supervise their children.

On the other hand, the public is equally demanding that children not be allowed to go hungry because of parental neglect.

I think it is this type of dilemma that brings us here together today.

I would like to just make a few comments in terms of the kind of things which I think might be looked at by this subcommittee.

One of the things I think the public assistance program was intended to be, in addition to just providing financial help to families, was to allow children to grow normally and become stable adults.

I believe that because of this, one of the things this subcommittee should look at is the relationship of aid received to the educational program. We don't hear about this much.

I believe if you're really going to help parents become better parents and adequately care for their children, you have to look at the educational needs of the parents, as well as the children.

I also think that the traditional work ethic stressed in our country is that all able-bodied persons work and maintain economic independence.

Public assistance regulations require that all parents of school-age children seek work to maintain their eligibility. However, school site, home area, work location, and access to child care are often incompatible.

One of the alternatives is, of course, child care.

One of the problems of child care at the local level today, Mr. Chairman, is that there is not enough of it.

For example, in my county in California we have approximately 12,000 mothers receiving AFDC. We do not have child care for more than about one-third of that group. Therefore, we aren't going to stress that those 12,000 mothers go to work in the public sector or in industry. We must be concerned about what happens to their children when they work.

I think the subcommittee should look at ways to finding more adequate means of providing child care at the local level.

In addition, I think we should look at child care and work in terms of what it does to the family. I think we do not gain much in our country by having all the adult mothers who have small children working, while at the same time the children are having problems in growing and developing.

Another problem causing concern at the local operational level is the hundreds of thousands of our working force now idle and unemployed at a time when women today are more and more taking over duties in industry and business which in the past were primarily handled by men.

In addition, as industry continues to improve its production methods, the number of those persons who are unemployed or who do not have sufficient skills for the jobs remaining create an obstacle in the introduction of the work concept within the agency program.

In my opinion, the damage this causes to the economic health of this country is very great.

So, again, I think we have to look at whether or not we can provide the kinds of programs that lead to jobs.

It has been mentioned today that we have a number of employment programs within the agency program. One of those is WIN.

Without trying to go into the history of why WIN developed, let me just say, as a practical matter, we have approximately 5,000 persons in AFDC who are currently registered in WIN. Of that 5,000, only 523 are being actually served.

Our staff worked very hard at getting people certified and into the WIN rolls. At the same time, there were not sufficient programs to make sure that those persons who aren't certified by WIN can get trained and employed.

When you have a national program with WIN and in 1 county out of 5,000 you have 500 persons who are being helped by that WIN program, I wouldn't call it very successful.

I also want to speak to separation, because it has been mentioned here today already.

As the subcommittee members know, some years ago HEW mandated that we separate income maintenance from the social services. In my written testimony, I have tried to give the committee some background reasons why this occurred.

One of them, of course, was the belief that by separating social services from income maintenance, you could do two things: one, you could make the income maintenance program more effective and efficient with staff being paid at a lower salary. By taking social services out of income maintenance, you took away the stigma of public welfare from social services and supposedly could provide a greater range of services to those persons in need.

Title XX, as you know, damaged this separation even more by making more persons in the community eligible for services while at the same time cutting the funds to provide those services.

In my county, about 60 percent of my population could be eligible for social services. It's obvious we couldn't serve more than 5 percent of that group, because we don't have the funds for it.

On the other hand, we have an income maintenance staff group who feel very strongly the need to provide some services to those persons in their income maintenance caseloads. They do this because they are told social workers do not have the time. Therefore, in a sense, what you've done with separation is create two schools of staff, who are almost at war with each other in the same department. I don't think we have gained much by separation, and that probably is why it is no longer mandated.

I think you could have gained your efficiency and effectiveness in income maintenance by a variety of other management tools and methods. A number of these are pointed out in my statement.

I have given you a section on what I call cost containment, because your subcommittee staff had made reference to the idea that at the national level you try to find ways to contain the cost.

All my statement does is describe to you what California did as a State with the counties.

I maintain in my statement that it was not a cost containment plan. It was a cost shift from the State to the local county government.

I think if you are going to talk about cost containment from the national level, what you have to consider is the differences in counties or States and not use simple averaging, or those kinds of simple methods, to contain costs. As long as your statutes allow your States to be different and as long as the State laws allow local governments to be different, you should not insist that everybody be put in the same mold.

I made some comments on personnel, and I know these have been mentioned already today.

There's no question that we have sufficient personnel in this country to do the job if the funds are there to employ them.

Because of the cutbacks in your social service funding, in my county alone we have reduced our social service staff by 50 percent in 4 years. This means that persons with problems in my county probably will not be served.

We will, however, serve them eventually when the problems rise to the crisis stage, come to the attention of law enforcement, and children drop out of school and in general become a problem to the community. But in terms of trying to deal with the problems that our citizens have, on a preventative basis, we do not have the staff to do this.

I believe that there are personnel available to do this job, but lack of personnel is one of the limits I see in the present public welfare system and it does affect the AFDC mother.

I think we assume that she lives in a vacuum in our society; that she doesn't interact with her neighbors; she doesn't go to the store. She does exist; she's one of our citizens. I believe it's very important to realize that in our American way of life, it is very difficult to separate money and social problems. You need money to live on; you need money to send your child to school; you need money to allow your child to live normally in the neighborhood.

I think when we talk about separating money problems and other kinds of problems, we make a mistake.

I've given you a section on the complexity of the public welfare system itself, because, as you know, it's a very complex system. The States differ in the types of forms they have.

I think we have made such a massive, complex system in our country that it is very difficult to administer at the local level.

I've given suggestions that there be a number of changes made—from the national level down to the local level—which would make the programs simpler to administer yet be just as effective and efficient.

We have different kinds of eligibility regulations and different forms for the food stamp program. We have different ones for medical or title XIX, different ones for AFDC, and on and on.

We developed more complex forms to try to make sure that the applicants and clients are more honest. I think what you do in this approach is to create more of a problem for the workers making out the forms and doing their jobs in such a way that we can bring down the error rate and that we can make sure that persons who get the funds are eligible for them.

We work very hard, for example in my country, to reduce our error rate. We are now below both the California average and the national average. But we did this by bringing in special kinds of units whereby we could give our staff help in understanding the complex forms and regulations so they wouldn't make the errors.

Unfortunately, you will note in my cost containment section that these kinds of special units are no longer supported by the State of California. Therefore, we have discontinued them, because cost containment doesn't recognize the relationship between efficiency and error rate.

I want to just make one other comment, and that is in the area of citizen involvement.

Many programs now that are passed by Congress have a requirement that you involve your local citizens and your State citizens in your various programs. This is no longer required in AFDC. It is required under title XX; it's required under the Older Americans Act, which provides for the area agency and agent. It is not required under AFDC, although it used to be.

I think it's very important that this subcommittee look at ways of involving the local citizens in the programs.

I have a very active committee in my county. They sit in my staff meetings; they appear before my board; they join me at the legislative levels; they are my critics; they understand the program; they bring other citizens into the program for their understanding.

Because they are involved, you tend to get a much more responsive program to the community itself.

Irrespective of who passes the laws—whether it be Congress or State legislature or county boards—they are really supposed to relate to people and to make the community a better place to live and to protect those who have a need for protection.

When you involve your citizens, you can be more sure that what you're doing is what the community needs and that you will make the changes as they are necessary and you'll get your support in making those changes at any level.

I believe this is one of the things that I would like to see supported much more strongly than has been in the past.

Thank you, Mr. Chairman.

Mr. FOUNTAIN. Thank you very much.

[Mr. Jornlin's prepared statement follows:]

PREPARED STATEMENT OF ROBERT E. JORNLIN, SOCIAL WELFARE DIRECTOR, CONTRA COSTA COUNTY WELFARE DEPARTMENT

As this nation's Public Welfare Program becomes increasingly significant as a factor in our social and economic life it is proper that this Subcommittee today devote this time to an examination of the AFDC Program which is an integral part of this structure. First we must remind ourselves that this program started back in depression days when emergency need was crucial at all levels of government. In addition, we must remember that this was the first significant involvement of the Federal Government in the field of helping persons with their economic needs. Today more than 30 years later we should formulate some ideas and conclusions about what we would like to see done to make these programs operate more effectively, with the greatest possible good accruing to those who are in need of assistance.

We know that two important things have occurred over the past years. First, many changes have taken place since the first enactment of the Social Security Act itself. We know that the act itself has been amended many times in an attempt to keep pace with the development of new and critical problems as they effect the lives and well-being of the American people. In this respect we are aware that many believe that some of the assistance programs are failing to serve the objectives for which they were intended. Secondly, the program towards which the greatest amount of criticism is directed is the Aid to Families With Dependent Children. Many state that this program encourages immorality, illegitimacy and family dissolution . Others claim that the program has brought encouragement and inspiration to thousands of families where none existed previously. It is said also that because public assistance is not available to families where both parents are in the home and the father is underemployed that this virtually forces the father to desert in order that his family may be cared for under this family program.

I also believe the AFDC Program requires more attention now because it is by its nature a political dilemma. The public for many years has been incensed over the repeated reports of the failure of parents to perform in a responsible way with reference to their "obligations" to support and supervise their children. On the other hand, the public is equally demanding that children not be allowed to go hungry because of parental neglect. The social unrest of recent years among minority groups has created additional demands for public consideration which cannot be ignored. Thus, I believe that the Public Welfare problem is one that requires a broad redirection of public policy and purpose.

In that most of the present public expression of concern about AFDC to families relates to the behavior of parents, the program should be redirected in terms of the public policy to ensure that children are provided with a maximum opportunity to become productive adults. This problem requires that the AFDC Program, where necessary, be pointed in the same direction as the public education program. Thus, one of the primary changes in legislative and administrative direction should be directed at a closer functional relationship between the educational institutions and the public welfare system.

Consideration should also be given to appropriate training and job placement for the adults in these families. This activity should be accomplished in such a way that the children are not deprived of appropriate parental support which would result in unstable adulthood and could create dependency or in other ways cause community problems.

CHILD CARE

In our country the traditional work ethic stresses that all able bodied adults work and maintain economic independence. Public Assistance regulations require that all parents of school age children seek work to maintain their eligibility. However, school site, home area, work location and access to child care are often incompatible. One alternative is in-home child care which is more expensive and generally unregulated by federal and state standards. Another worry is the abundance of unlicensed child care homes which do not have the protective standards and are no less expensive.

Public financed day care centers have increased in recent years but they require trained child development staff and frequently have long waiting lists. Cost factors often necessitate large scale operations that cannot provide enrichment experiences or meet the special needs of an individual child. There are 120 licensed day care homes and facilities within our County but this is an insufficient number. We have a wide range of income levels and no group, much less the poor, has adequate day care resources. Many of our county's residents commute long distances to employment without an option of jobs near home. Transportation cost combined with child care costs does become prohibitive. The result too often is an uncared for child with a latch key around his neck. Increased federal funding is needed for licensed small family day care homes to provide a source of convenient low cost care and also to serve as satellite homes to larger centers. The resulting capacity to provide loving surrogate parental care in a home atmosphere can easily provide individual enrichment experiences. It can help to replace the supportive relationship and availability that the extended family formerly provided. This type of day care best answers the needs of infants, large families and parents with unusual working hours. This care could be purchased through a subsidized voucher system. This system permitting poor families to purchase the kind of child care best suited to their needs would assure the community of having well cared for children.

In this regard one of the more serious problems that Congress must review is the inadequate amounts of funds and resources made available for appropriate child care when the mother or other single parent in the home is working or training for employment.

An employee of one of our local public day care centers states that 90% of their children come from single parent homes. These parents have marginal skills and work at low paying jobs; they cannot afford to forego wages when the child is ill and in general are overwhelmed by day-to-day responsiblities. Contra Costa County does not have child care resources for most of these families. We are not atypical; most communities are unable to meet this demand, especially for quality care. There are varied reasons for this problem:

> Society's attitude toward working mothers has changed - the extended family, as a traditional source of free and available child care, has been broken by urban and suburban mobility.
>
> Child care is expensive! In Contra Costa County the lowest rate available for one child is $100 per month. Costs are higher for multi-children families, infants and extraordinary situations. A divorced father, who worked at night, sought help at one of our offices because he paid $200 per month for care of his only child. Due to a moderate income, he might have been eligible for welfare, but only sought lower cost child care. None was available because of his work hours.

EMPLOYMENT:

Another perplexing problem causing major concern at the local operational level is the hundreds of thousands of our working force now idle and unemployed at a time when women today more and more are taking over duties in industry and business which in the past were primarily handled by men. In addition, as industry continues to improve its production methods, the number of these persons who are unemployed or who do not have sufficient skills for the jobs remaining are creating an obstacle in the introduction of the work concept within the AFDC Program, and, in my opinion, are damaging the economic health of this country. In Contra Costa County, for example, we have approximately 12,000 mothers as single heads of household receiving AFDC for themselves and their children.

In Contra Costa County the effect on the AFDC and AFDC-U caseload of manpower programs has been almost negligible and very disappointing. The Work Incentive Program, which has as its participants solely welfare recipients, has made little or no impact on the caseload. The reason is not hard to ascertain. By federal law persons are defined as employable, based upon factors which have absolutely nothing to do with their actual employability, either in private industry or public service employment. For example, women with no physical problems who have no children under the age of six are classified as employable and must register with the Department of Employment for the WIN Program.

Contra Costa County has approximately 5,000 persons on aid who are currently registered for WIN. In June 1977, 393 persons were in a WIN active status (receiving some form of training). In addition, 130 persons were in WIN follow-up because they had become employed. Thus, only 523 persons out of 5,000 were actively being served. In June, Win placed 29 persons in full or part-time employment. In addition, 117 persons obtained their own jobs, either part time or full time. Prior months' statistics are comparable to June. Most of the registrants are perpetually in a WIN inactive status. It is not that WIN does not want to become involved with these individuals, but it is because the funding of the WIN program on a local basis in both the Employment Department and the Social Service Department is largely determined by "welfare savings". Welfare savings are determined by the number of persons actually employed or on WIN sanctions because those individuals would have had their grants reduced. By necessity, therefore, WIN must take only the very cream of those who are registered. WIN units are directed by State guidelines to activate only the most employable and to "bank" the balance. The vast majority of welfare recipients who are technically "employable" are not in fact employable. These individuals are the ones who need services but are reviewing none. If a WIN office attempted to serve these most marginal individuals, it would have few placements, thus no welfare savings, and would be fiscally penalized. Also, the Social Service Department would lose most of its funding for the Separate Administrative Unit,which is a Social Work unit responsible for WIN cases. Welfare programs should not attempt to define employability based upon factos that have no bearing on the actual employability of the individual in the market place.

The other program which purports to give welfare recipients a preference is CETA. The story here is almost identical as with WIN. Many are referred but few are accepted. As of May 31, Contra Costa County CETA (excluding the City of Richmond) had 2,262 registrants of whic 631 were AFDC. One thousand four hundred and twenty three of the 2260 were in programs. Of those 1,423 individuals in programs, only 170 were on AFDC.

CETA requirements for actual entry into the program are high and most welfare recipients simply do not qualify. The reason is not hard to find.

Both the prime sponsor and the sub-contractors are judged solely on placements. The result is, again, a "creaming" process. CETA admits it and has requested that the Social Service Department refer only very qualified individuals. Thus the door is once again shut on the vast majority of welfare recipients. Contra Costa County Social Service Department attempted to have a joint program with CETA for General Relief clients. The program was dropped because so few of the referrals were acceptable to CETA. As of this date, it would appear that very few, if any, welfare recipients will benefit from Title VI of CETA. Most of the positions requested by public and nonprofit agencies are much beyond the level of our clients, so very few will be placed into these public service jobs.

It should also be noted that 41 individuals who are in the WIN active category are in the CETA program. Both programs take credit for those 41 individuals and both programs will take credit for any of those individuals who are placed into employment.

There is no easy answer when programs are judged solely on placements. We do know that such programs do not benefit the vast majority of welfare recipients. We also know that legislating who is employable does not work, but it does create a tremendous bureaucracy and paper work load in order to benefit a few.

There definitely should be programs geared to the level of the vast majority of welfare recipients who are not in fact employable but who are eager and willing to go to work or to be educated enough to pass on to their children, by example, the need for adequate education and job skills. These programs should be statistically separated from programs for those who are really employable. In that class of program would be remedial education, basic skills, high school equivalency, etc. It must be realized that most welfare recipients are not being served by present federal manpower programs.

It is our experience based upon the old Title V program that welfare clients desire to work but that much has to be done in fact to make them employable. We are only fooling ourselves when we serve those who really need very little or no help in obtaining employment and count these as evidence of success. It is time that programs be judged also in terms of what they are not accomplishing, such as in Contra Costa County where 4,500 welfare recipients classified as employable are in fact just languishing because they are not considered as "good risks" by present programs.

We request that no mandatory job search be instituted for so called "employables". This would not be cost effective and would be impossible to administer. It sounds good, but it is in fact less productive. A selective job search requirementwould be feasible.

In conclusion, welfare departments should once again be given a more active role in the training and counseling of unemployable "employables". We recommend that the vast number of clients be served by welfare departments as was true under the old Title V Program. Present programs have failed to overcome the problem that they were intended to solve or ameliorate. One can ask whose responsibility is it to initiate programs to provide for the appropriate employment of our adult citizens for training or retraining these adults for employment. Some say government, others say industry and some even say organized labor. In my opinion, this responsibility must be shared by all of these disciplines or groups because of the serious impact of this problem on our American way of life. Under the Welfare Reform Proposal, it is anticipated 1,000,000 jobs will be made available in either the public or private sector; however, unless there is a drastic change in approach, most of those jobs will go begging or be filled by persons not capable of performing.

SEPARATION OF INCOME MAINTENANCE AND SOCIAL SERVICES:

Because I feel that economic needs of family and social problems are intertwined in our American way of life, I do not believe that the separation of these two programs which was mandated some years back has improved the effectiveness of either program. In fact, I believe the separation of these two programs has had a serious detrimental effect on the ability of State and local governments' programs to properly help families in trouble and work towards restoring them toward economic and social stability. Although the separation of Income Maintenance and Social Services was seen as a potentially significant reform, probably the most significant since the public assistance program started, I do not believe that statement would receive much support among welfare administrators today. They would agree, I believe, that the separation is bringing change, even chaos; but significant change?--NO. To consider further the value of continuing this separation, I believe we must briefly review how it came about and why it was initiated.

There seems to be two main themes to why separation emerged as a Federal policy. The first theme seemed to be more philosophical and related to a conviction on the part of many professionals over the years that separation would establish a more proper relationship between Income Maintenance and Social Services. The second theme, however, was intended to make the Income Maintenance structure more efficient and the administration of the program more accountable. This, I believe, is the real reason why separation was strongly supported in the past. This movement towards operational efficiency seems to be in direct conflict with the way the Social Security Act has developed over the years. When it was first created in 1935, it was basically an Income Maintenance program, but almost in the beginning it was realized that families oftentimes could not use financial aid properly without their many other problems being treated. Thus, we began to see the changes take place through Federal legislation that provided for a number of resource programs added to the public welfare effort. With the increasing number of citizens and families receiving welfare, however, many welfare professionals thought that by separating Income Maintenance and Social Services more support could be obtained for the Social Services while placing the Income Maintenance Programs under closer scrutiny and control. In addition, it was felt that as long as Services were attached to Income Maintenance, society would never consider Income Maintenance to be a right of all citizens, and as long as Services were attached to Income Maintenance, they would never be effective. It would seem, however, that our policymakers forgot that the American way of life and ability of our families to adapt to social and community changes is closely related to their economic needs.

There is no doubt that a number of experiments throughout the country in the early 60's tended to suggest that simplification of policies, standardized grants, utilization of self-declaration of income eligibility forms and client completable intake forms would lead to more simple and efficient administration. It was also thought that once these Income Maintenance procedures were more routinized and made more objective, it would be possible to employ less trained and less costly staff to carry out these functions. We could then move the more highly trained workers into service units so that the supportive help many families need could be expanded.

I would strongly urge this subcommittee to give careful consideration to integrating the Social Services and Income Maintenance programs in a much more viable manner than now exists. It is inconceivable to me that we continually attempt to divide the American family into segments to be treated separately by staff within the Public Welfare System itself and by the many other agencies throughout the community. If we believe that one of the major purposes of AFDC is to provide income to a family so the children in that family can grow normally and properly within our American society, then we must organize our efforts to create a climate or environment which provides for the process

I believe it was not realized what would happen with the relationship between Income Maintenance and Social Services when separation was complete. I recognize as a local director that there had to be considerable confusion in a national change of such magnitude however, I do not believe that is the real reason for the chaos and confusion that has resulted in the past several years throughout the country because of that decision. I believe we could have implemented many aspects of what is now considered to be Income Maintenance and Social Service separation through a variety of administrative processes, changes, new methodology, use of computer technology, use of paraprofessionals, and other management tools and devices without going through the massive changes which this country's welfare staff went through with this reorganization. At one time, the push for separation was so strong that efforts were being made to put staff in separate buildings so they could be more efficient without realizing the impact of this on the average citizen or client who became even more confused. In addition, it has created in many states and counties an adversary relationship between those staff who provide social services and other staff who provide income maintenance eligibility determination and monitoring.

This creates frustration on the part of the staff when the various resources needed cannot be responsive and when the client or family cannot be properly helped because of this lack of support. In addition, because of the considerable difference in salary, it is not unusual for an Income Maintenance worker to feel that he or she is being required to provide social services at less pay while the better paid Social Service staff person who should provide the services is unable to because of staff shortages. This has become critical as the funds for social service programs has been reduced over the past few years and, in addition, in many states, California being one of them, the funds available for administration of Income Maintenance have also been reduced.

COST CONTAINMENT

With respect to administrative costs, I have several comments and observations. As you are probably aware, the California State Legislature several years ago, had much the same concern as your committee does, that the costs of administering Public Assistance programs were growing much more rapidly than the caseloads being administered. As a result our Legislature developed a "Cost Containment" program to limit the State share of costs of administering the programs. In California the non-Federal share of administering the AFDC program is shared 50-50 between the State and the counties. The plan developed by the State was aimed at limiting their share of these costs. In the context of that goal, the plan has been very successful. While costs have increased since the plan was initiated, the increases have been much less than for the period prior to the plan. I should say again that I am speaking as a County Welfare Director and thus my position on the plan is at odds with that of the State in several respects. I am stating these concerns here so that if you find it necessary to develop a cost control plan at the Federal level you can avoid some of the problems which I believe exist in California.

Basically, the approach taken by the State Department of Benefit Payments, which supervises the county administered AFDC program, was to group the State's 58 counties into the three categories, large, medium and small. The 33 "small" counties represent only a very small percentage of the administrative cost of the program and because of their small size were largely excluded from the plan. Contra Costa County is one of the eleven large counties in the State. (The largest county, Los Angeles, accounts for about 40% of the State's total for AFDC administration.)

The State determined the average caseload size of the eleven large counties and then required counties with caseloads below the average to reach the average size over a three-year period. The size of the dollar allocation each county received over the first three years of the plan was determined by calculating the costs which would have been incurred had the county moved toward its goal. To the extent a county did not move toward its goal, it was required to absorb the 25% State share of AFDC administration.

My own county had hired 20 Eligibility Workers just before the plan became effective and thus actually moved away from the goal over the first year of the plan. (As a result we exceeded our allocation in the first year by approximately $36,000.) However, as soon as the plan became effective in October 1975, we initiated a freeze on the filling of any eligibility and clerical positions and have only recently begun to replace workers and clerks who leave. We have now reached the point where we are within the State's standards but still exceed the limit for "support costs" which are also controlled by the State plan. These support costs include costs of county government allocated to the Social Service Department through the "A-87" Plan (now Federal Management Circular 74-7) costs of space rental, electronic data processing, administrative and clerical salaries and other operating costs. We are in the position of being unable to control some of these costs at all and to have only limited impact upon others without severely reducing the level of Income Maintenance service in the county.

Without reviewing in detail all of our concerns with respect to the specific approach taken by the State of California, I do wish to mention some of our major concerns and urge that any Federal plan be designed to avoid similar problems. It is our belief that the plan I just described is not a cost containment plan but is rather a shifting of costs from one level of government to another. We would certainly agree that an approach to cost containment is in order but the use of a simple arithmetic mean of average workloads does not provide a sufficient basis, in our view, to reduce funding to individual counties. The use of such a mean to set workloads represents "enforced mediocrity". It would be much more useful for counties or other entities administering Public Assistance programs for the State or Federal agency to review the operations in various jurisdictions and identify those approaches which are most cost effective. This information could then be shared with other jurisdictions and offer alternative approaches to program adminstration.

Although State staff has not advised us of more effective approaches in use in other counties, they did undertake a review of our AFDC operations and made a number of recommendations for change. Some of the recommendations have already been implemented and others are now being evaluated.

I am also pleased to note that HEW has contracted with a consulting firm to identify actions that federal, state and local governments can take to improve the AFDC program relative to the three objectives of--efficiency, effectiveness and equity of service. As you will gather from the tone of my remarks, I feel it is essential that all three of these objectives be considered in any legislation, regulation or approach to the provision of eligibility and social services. I am also gratified to see that one phase of this study in California will be a review of the "effects of the cost control program on the counties' AFDC operations." We will be responding to the State's inquiries on the program with many of the same comments I am making before you today.

In addition, the Department of Health Education and Welfare has published a series describing efforts in different states to bring about improvements in the management of the AFDC Income Maintenance programs. We are finding the materials on work measurement and work simplification helpful to us as we endeavor to apply those techniques in a local county welfare department. To the extent federal technical advise and support could be made available to local jurisdictions, we could achieve results more rapidly and I would urge you to make such technical assistance a component of any cost control plan. I believe that the intent of the California Legislature, as expressed in Section 10615 of the Welfare and Institutions Code, is one which could be commended to the Federal Government in its dealings with the States and Territories. It reads as follows:

> "California's 58 counties vary greatly in their welfare problems, and therefore they should not be treated alike in the supervision of welfare programs. The Legislature hereby declares its intent that the department examine the extent of state control needed over county operations, with a view toward eliminating excessive rigidity in procedure; the State should differentiate between those counties which need general direction as opposed to tight supervision.
>
> Within these guidelines, the department shall aid county departments in establishing economic, efficient, and effective methods of operation, including, but not limited to, advising and consulting with county departments with regard to the introduction of electronic computer and data processing systems, personnel utilization, office controls, centralized purchasing, centralized warehousing, writing of specifications, and examination of materials and equipment purchased by county departments."

If a Federal plan is to be developed, some accommodation should be made for the wide variety of conditions existing throughout the country. Hopefully the geography of a jurisdiction, its population groupings, access to transportation, relative sophistication and literacy of its clientele and applicants and the number of offices existing or required, can be considered as they are factors which have a great impact on the cost of administering Public Assistance programs. To this point, in California, local Boards of Supervisors have established the level of Income Maintenance services to be provided within the parameters set by the Social Security Act and Federal and State regulations. It becomes a question as to what extent the Federal Government wishes to become involved in modifying these levels of service. For example, a neighboring large county has but a single office from which it administers AFDC. Contra Costa County receives applications and processes payments from six of 20 offices located throughout the county. In addition, our county has generally succeeded in processing all applications within the 30 days required by Federal regulations. There is no fiscal sanction applied against a jurisdiction which fails to meet this requirement. Also, our county has elected to assist applicants in completing the rather complex application forms required in the program and provides interpreter services to non-English speaking clientele.

I said earlier that the State's plan is based on average caseload size and does not take into account other aspects of the effectiveness or level of service in a given county. The State cost control programs extend to Non-Assistance Food Stamps and Medicaid as well as to AFDC and we have been under pressure from various sources to continue activities at levels maintained prior to imposition of cost control. For example, Federal Food Stamp Auditors now in our county are quite concerned that we have fewer "overpayment recovery" workers and prepare fewer food stamp issuance reports than before. Previously, the activity of our Overpayment Recovery Units made Contra Costa County a national leader in the detection and collection of food stamp overissuances, but this activity has declined because of the need to divert staff efforts elsewhere. There is no financial reimbursement to the county in recovering food stamp claims. Nevertheless, our reduced level of activity is still far in excess of the State average. Much more could be done were staff time available and it will be the expectation of the Federal auditors that we do more. This is an example of the kind of additional effort that counties are expected to make but which is not recognized in the State's cost containment plans.

Thus I would urge that any cost control approach developed by the Congress or by HEW take into consideration the differences in jurisdictions and most importantly, measures of effectiveness other than simply a cost per case.

ERROR RATES

Our county is very proud of the high-quality, conscientious work performed by our Income Maintenance staff. Over the past three years, Contra Costa County has consistently maintained one of the lowest error rates of the major counties in the State of California. This minimum-error-level performance was not simple to achieve, and is becoming increasingly difficult to maintain in the face of the limitations imposed by the State's cost control plan.

In December, 1974 we became extremely concerned over a sudden substantial increase in our error rate related to overpayments. The Federal/State Quality Control Review for the period of July-December 1974 indicated an error rate for ineligibles of 5.6%, which was within the tolerance level of 6%; however, our rate on overpayments was 17.5%, which exceeded the tolerance level of 14%.

Early in 1975 we began to implement corrective action measures to reduce the rate of erroneous overpayments to recipients. Monitoring and auditing activities were increased so that another "pair of eyes" could spot-check for errors that may have been overlooked by the case-carrying worker. Contra Consta County has had specialized reinvestigation units in the Districts for a number of years (no allowance is made in cost containment for these units) and the activity of these units was increased in the areas of income verification and third-party contacts. A State-funded "Defect Prevention Project" was also being tested in one district office during 1974. When we discovered that the bulk of the errors for the July-December 1974 period was concentrated in one district, the Project was expanded to include that district and extended for an additional 6 months. A recipient education effort was also initiated in that district using temporary Eligibility Workers to assist recipients in completing Income Reporting forms correctly. The assistance was required, in any case, where the form had been submitted incorrectly or late. There is no doubt in our minds that the drastic reduction in our error rate that occurred in the July-December 1975 review period was a direct result of the above corrective action efforts. For that period our error rate was 1.1% for ineligibles (Federal Tolerance Level 3%) and 5.5% for overpayments (Federal Tolerance Level 5%). This error rate was the lowest among the major counties in California for that period.

Between September 1, 1975 and April 1, 1977 this department reduced Eligibility Worker and first line supervisor positions by 51 (12%), First line clerks and their supervisors in Income Maintenance programs were reduced by 42 (19%). Our contract with the Union representing Eligibility Workers requires an equalization of workload throughout the county. This has been achieved through the involuntary transfer of staff because no new staff has been added. This, together with increasing caseloads, has put severe strains on staff throughout the Department.

We have been faced with a greater incidence of complaints from clients and applicants as a result of our inability to respond quickly to their concerns and with a greater number of emergency situations resulting from our inability to process applications quickly as previously, although we are still meeting the 30-day requirement.

My point in describing the above is that none of the corrective action remedies we used in 1975 to reduce our error rate (with the possible exception of the Defect Prevention Project concept) are provided for under California's Cost Containment Plan and have since been curtailed as a result of cost containment limitations. We no longer hire temporary workers for special projects, the activity of our reinvestigation units has been limited in order to reduce the staffing, and the "Defect Prevention Project" staff was returned to case-carrying positions in order to minimize the growth in caseload sizes. Our error rate has not increased drastically since cost containment (overpayments increased to 7.8% January-June 1976; the review for 1976-77 is not yet available); however, it has increased to some extent, and we feel quite limited in our ability to counter-balance or neutralize any problem areas that may develop due to our cost containment constraints.

PERSONNEL:

Your staff have asked, "What are the personnel problems of State and local welfare systems?" I am sure all will agree the response is more difficult than the question.

Over the years since it was established, the AFDC Program has increased in complexity. This increase in complexity, coupled with a decreased in the funding available for salaries and restrictions imposed under the separation requirements (mandating separate administration of Income Maintenance and Social Services), has resulted in a large number of individuals who are trained in Social Services to accept jobs in Income Maintenance. Turnover in the Income Maintenance classifications is significantly higher than in Services, possibly because of this educational background. (To my knowledge, no jurisdiction in California has been able to establish the causes for this high turnover). In our County, approximately 15% of our eligibility work force leaves each year.

These high turnover rates in such a complex program also causes higher training costs. The State of California requires a four week training program for all new permanent employees in the eligibility field. With approximately 60 employees (in eligibility alone) leaving each year, this is a significant training responsibility.

In addition, in California there has been imposed this overly simplistic approach to allocating Income Maintenance funding. This has resulted in fewer staff to do the job, with no adequate allowance for variations in County operations, geographic concerns or the affect on clients. The increasing number of clients which must be handled by each worker is a factor which we believe will soon result in further adverse effects on turnover.

These are just a few of the personnel problems facing a local welfare department. They result because we are required to administer certain programs or provide certain services with funding insufficient to support the number or quality of staff necessary to do the job. Excessive turnover among workers and poor service to the clients is often the result.

All this relates to the availability of trained personnel in the job market. As I am sure you are aware, the number of persons trained in undergraduate studies to enter the field of social work is very high. The encouragement by educators for their students to enter this field probably reached its peak in the early 70's. But, as is so often the case, by that time, the availability of jobs in Social Service already reached a climax. Although eligibility programs were still in need of staff, the type of work involved was vastly different than what these college educated individuals were prepared to assume. In addition, the complexity of the eligibility program requirements necessitated special on-the-job training regardless of the educational background of the individual employee.

In conclusion, there is a relative abundance of college and graduate level individuals available for employment as Service workers. However, the jobs which are generally available are for the eligibility (Income Maintenance) programs for which an education level equivalent to high school is all that is required. Then, even with this situation, specialized training must be provided in either Services or Income Maintenance.

Obviously, while well educated individuals are available, the supply of trained individuals (capable of assuming a position without intensive training) is quite limited.

SIMPLICITY AND RESPONSIVENESS:

Verification and computation of net earned income in the AFDC Program can and should be simplified. The present steps required for computation of net earned income are complex and afford ample opportunity for the eligibility worker to make arithmetic errors. To justify claims of work-related expenses, AFDC applicants and recipients must produce detailed documentation of these costs. In order to simplify the process of converting gross earnings into net nonexempt earned income, I propose that the SSI earned income formula be applied to the AFDC Program with the important addition of an allowance for actual child care expenses. This formula would allow exemption of $65 of gross earned income plus one-half of the balance plus the actual cost of child care paid. I have calculated that using the SSI formula plus actual child care costs results in net nonexempt earned income figures which are very close to those derived from the present AFDC formula which exempts $30 of gross earned income plus 1/3 of the balance plus actual transportation, child care, and other work-related expenses. The proposal provides these advantages:

a. Equitable treatment of earned income for SSI and AFDC recipients.
b. Simplification for both those who administer the AFDC program and those served by the program, by eliminating a number of steps in the eligibility worker's computation of earned income and by not requiring the recipient to keep and produce certain records of work-related expenses. Only gross income and child care amounts would be needed for the formula, whereas now the eligibility worker must also verify mandatory deductions, transportation costs, and other work-related expenses such as uniforms before net earned income can be computed.
c. An incentive for recipients to reduce work-related expenses where possible, for example by using available public transportation instead of a car to travel to work.

d. Insurance that children receive the kind of child care that their parents feel is necessary by allowing this expense as paid, within a reasonable limit.

I also urge that AFDC grants be high enough to meet the cost of recurring special needs, such as special diets, which are common to a large number of recipients. Doing so, would eliminate a large number of individualized payments. Catastrophic situations can be handled separately. The family whose home has just been burned down needs the assistance of the services delivery system and funds for these truly exceptional situations should be made available through Title XX. California has had a reasonably successful SSI experience with flat grants and a provision for special needs for catastrophic occurrences (special circumstances).

A uniform accounting period would eliminate varying applications of income and need criteria across the nation. Our experience in California has shown that prior month budgeting, despite its problems of responsiveness, is relatively easy to administer. The only reasonable alternative is concurrent budgeting, which presents problems of accuracy as well as responsiveness. California's Department of Benefit Payments has done considerable analysis of accounting periods and budgeting methods. I recommend that you request to have its findings made available to you.

Program Integrity and Individual Rights and Responsibilities:

In Contra Costa County we have calculated that about one-half of case errors are the responsibility of the recipient. Of these,the greatest number result from improper reporting of earned income. Errors made by workers involve a fair percentage of simple arithmetic errors or other kinds of errors relating to the verification and calculation of net earned income. We believe this indicates the need for simpler income regulations, not for more verification. Many recipients simply do not understand the complex, highly technical programs or the semi-legalistic language used to explain their rights and responsibilities. Adoption of simplified income computation and reporting requirements could greatly reduce the potential for errors and lend program integrity.

Verification requirements and systems must be changed so that the welfare system can be more responsive to people's needs as well as more credible and more easily administered. Our present system requires that applicants for public assistance provide many forms of documentary evidence to prove their statements. This is done at a time of crisis when the person is applying for public assistance.

People are often confused by the demands made for verification and many times cannot provide the needed documents. Workers are placed in the position of enforcing these requirements against those very persons for whom they are employed to help. Failure to enforce the requirements results in "unverified" eligibility and a case error, while abiding by the regulations can result in delay in granting needed benefits. I propose a different system, along the lines of that used by the Internal Revenue Service.

When persons apply for public assistance, they should be given simple, clear and concise information regarding their rights and responsibilities. Their statements should be accepted at the time of application without the necessity to provide detailed documentation then. Applicants would be told what verification should be kept or obtained in order to prove their statements should their case be subject to an audit. The present quality control system should be expanded and more cases should be randomly selected for audit. When an audit reveals discrepancies, the regulations would provide a clear distinction between actual intent to defraud (which, when discovered, should be vigorously prosecuted) and simple mistake or inadvertence.

In addition to expanded random audits, there should be regular reporting requirements. The requirement for a monthly report does exist in California. It is administered without great difficulty and it is my opinion that this requirement has contributed to California's dramatic error reduction.

Finally, there should be maximum use of what I will call automated verification procedures, such as California's Earnings Clearance Process which compares lists of workers whose wages are reported for unemployment and disability insurance purposes to lists of persons receiving public assistance. Discrepancies discovered as a result of an automated verification process would automatically trigger an audit.

These rough ideas are an attempt to describe a system that will be responsive by granting assistance quickly to those who declare that they need it, while at the same time providing efficient and cost effective means of monitoring the system and ensuring that fraud is kept at a minimum and dealt with strongly when discovered.

Federal-State Relationship:

I believe that the quality control program does serve a useful function and could be usefully expanded in the manner I have just described. The results we have seen in California appear to be reliable, at least on a statewide basis, and I believe the program has enhanced my knowledge and control of Income Maintenance operations within my department.

Administrative Cost:

A simple observation here is that there certainly appears to be a positive correlation between the increasingly complex public assistance programs and increased administrative costs.

Employability and Employment of AFDC Recipients:

The WIN Program is a boondoggle. The system is expensive, complex, burdensome and conducive to "errors". By "errors", I mean failing to properly process all the paper that is necessary to register people who very likely will reap no benefit from the program. I urge that we have a program of voluntary work registration. One of my neighbors, Santa Clara County, has recently received a federal waiver to begin a three-year experiment of work registering only persons who volunteer for this service. I applaud this effort and hope that this experimental program will be watched with care.

In states such as California which have an AFDC-U Program, a distinct financial disincentive exists for the intact nuclear family. This is because deprivation of parental care and support, in the form of the father's unemployment, is linked to the number of hours the father workseach month and not to the amount of money he earns. When the father accepts employment at a minimum wage, he often decreases his family's income because his earnings, minus the costs of employment, are less than the welfare grant for his family. I feel that the financial deprivation of children should be the focus of the AFDC Program, rather than the contrived and technical definitions of deprivation we now have which result in discriminatory treatment of intact families.

Coordination of AFDC:

Because of concepts such as "drprivation" in AFDC, people have to meet a prescribed set of criteria in order to be eligible for assistance. If they don't fit precisely into the little boxes, regardless of need, there is no eligibility to AFDC. In these instances some other program, most often county relief or what we call General Assistance, is used to alleviate need. Eligibility for assistance should depend primarily on financial need, not deprivation of parental care and support alone.

In addition, forms, definitions and regulations for all programs such as AFDC, food stamps and Medicaid should be as similar as possible. Presently, one family may have to complete as many as four different Statements of Facts to establish eligibility to various public assistance programs. Work registration requirements, income exemptions, and reporting responsibilities vary from program to program. It would make sense to have one uniform public assistance application form and consistent regulations for all program requirements. Income and property limits could vary and would determine the program or programs to which family members are eligible, so that the recipient and the eligibility worker need not return to square one each time ineligibility to a given program is discovered.

AFDC & FOOD STAMPS:

Section No. 8 of your staff's outline raises questions about the coordination of AFDC with related welfare programs. It points out that lack of coordination among programs causes variations in eligibility requirements such that recipients are confused (and skeptical), and eligibility workers are hard-pressed to correctly apply the regulations.

Differences between the AFDC and Food Stamp programs dramatically illustrate problems caused by lack of coordination among programs. Persons applying for these programs are dismayed to learn that certain sources of income will be counted in one program but disregarded in the other. Or, that work or training-related expenses will be fully considered in one program but only partially or not at all in the other. That some mothers with children must register for work in one program but not in the other. That some relatively high income AFDC households can get food stamps automatically but some non-assistance households with much lower income cannot. There are many other confusing differences between the Food Stamp and AFDC eligibility requirements. These differences have been thoroughly examined by policy-makers and congressional committees in the past and have often resulted in recommendations for a coordination of AFDC and food stamp policies.

Applicants and eligibility workers are overwhelmed by lengthy applications required separately by each program but which capture the same information. Separate forms for notices of action, work registration, income reporting, resource verification, etc., are required by each program and contribute to nothing except a costly and frustrating exercise in redundancy. This points further to the need for coordination between the AFDC and Food Stamp programs.

It is extremely important to point out, however, that mere coordination of two giant programs is not the final solution to better service to our low income families and to the achievement of administrative cost savings. Rather, it is increasingly felt that, to achieve these goals, the Food Stamp Program should be scrapped and that upgraded assistance standards, paid in cash, should be substituted. This view is included in the official platform of the California Welfare Directors Association and in the welfare reform proposal of the National Association of Counties (NACO). It is recognized that a discontinuance of the Food Stamp Program may be a few years in the future. In the interim it would be wise to attempt maximum coordination of the AFDC and Food Stamp programs. Many have proposed that the Food Stamp Program be taken over by HEW and this would probably be the best way to achieve the desired coordination. At the very least, however, there must be sharply upgraded communication and cooperation between USDA and HEW regarding resolution of the differences between the Food Stamp and AFDC programs.

COMMUNITY INVOLVEMENT:

With the advent of Title XX, social services are theoretically available to a much larger segment of our population. In addition, this act provides for more flexibility at the local level so that Public Welfare Departments can be more responsive to the community and, in turn, the community itself can have a greater voice in the kinds of programs developed in the setting of priorities.

An important part of this new thrust which affects both the social services and the Income Maintenance programs is the greater involvement of the local citizen in helping in the setting of priorities and enhancing responsiveness to community needs. This ability of the public sector to interrelate creatively with citizens in the community is of great importance to the AFDC recipient. It is equally important to be aware that the AFDC recipient does not live in a vacuum in his neighborhood and community. His or (more likely) her ability to live positively is greatly dependent on the social and economic health of that community.

The AFDC recipient is typically invisible to the general public. The "facts of life on aid" have become enshrouded by so many layers of myth and folklore that the real person becomes quite obscure. Just as programs must be seen as intertwined, so must the recipient be seen as an integral functioning part of the community at large. A major way of bringing this about is by actively involving the community at large in the activities of the welfare department. In my county, this is accomplished through a Citizen's Advisory Committee, with members appointed by the Board of Supervisors from each supervisorial district. One-third of the membership must represent the low income population. The goals of this committee are state in its bylaws:

1. Advise the Board of Supervisors and the County Director on the effectiveness of current and proposed social welfare programs.
2. Advise the Board and the County Director on recent and pending legislation's impact on the welfare recipient and the local administration of the social welfare system.
3. Identify problems in the community which impinge on low income residents, such as housing, transportation, education, and employment opportunities.
4. Interpret the functions of the County Department and the problems of public welfare to the citizens of Contra Costa County.
5. Solicit participation in the committee by all major segments of the population in Contra Costa County.
6. Cooperate and work with other citizen groups interested in welfare and other related services for the betterment of the welfare program in general.
7. Provide progress reports, as needed, and an annual written report to the Board of Supervisors. The annual report is to be submitted to the Board in person by the outgoing chairman of the Advisory Committee.
8. Participate in multi-county organizations of Family and Children's Services Committees.

During its 15 years of existence, the Committee has developed testimony and position papers on many issues affecting the low-income person. These documents were based on independent research by the Committee and data provided by the Department. The Committee is currently compiling a brochure on welfare facts and fantasies.

The Committee is also action oriented. The last two years has seen it actively dealing with the State Legislature and the Governor's Office on the need for additional funds for social services.

The Committee also has developed and sponsors two outreach programs, to inform the community about the realities of welfare.

The first program is "Share a Desk," which is held in various district offices, four times a year. Community leaders, from each district, are invited and each is offered an opportunity to spend an hour with two different staff persons, to learn about their jobs.

These visits are concluded with a luncheon for all participants, where knowledge and experiences gained are shared. A glossery of Agency "language" listing frequently used terms and abbreviations is also presented to participants for better communication.

These events have had excellent press coverage and have served to better inform the larger community of our Welfare Department and also the realities of life on welfare.

The second program is "Lunch with Income Maintenance." This was initiated this year and is a dessert lunch, involving Income Maintenance staff representatives from all welfare districts, along with community leaders. The program format is based on written questions from the community with verbal answers from the staff. The questions have covered a wide range of community concerns, such as employment requirements, regulations regarding child support, and activities dealing with welfare fraud.

Members of the Committee also serve on various policy boards of the Department.

We feel this involvement has greatly helped the Welfare Department in its sensitivity to the community's concerns and the problems of the low income person who is on aid.

We also feel that the knowledge acquired by the public has broadened the community's understanding of the Department and the welfare recipient. We would strongly urge this subcommittee consider the advisability of modifying current legislation to provide for the use of advisory groups for Income Maintenance as is provided in Title XX of the Social Security Act.

SOCIAL SERVICES

At this time, I also want to stress the need to initiate a more systematic approach to identifying social problems in families receiving income maintenance and in other families who have family and social needs so that they can be helped to maintain economic independence whenever possible. It is important, then, to consider that problems must be classified in terms of severity or level of service required to initiate change and to determine the kinds of staff deployment needed to solve the problems identified. I believe it will cost additional funds to modify agency programs in such a way that these elements can be recognized. However, I believe to do less will result in our failure to provide for appropriate economic and service programs, insure that all adults who should work are employed and that all children can grow and develop normally. Not to attempt this I believe will have serious impact on our efforts to slow down the destructive breakup of the American family which has been occurring throughout our country over the past several decades. As this Committee knows, this leads to delinquency, maladjustment, unstable adulthood, social problems, crime, drug addiction and many other problems that derive from inappropriate child growth and development.

Let me demonstrate in another way my concerns regarding appropriate support for the Social Service Programs in their relationship to Income Maintenance Programs. Contra Costa County has approximately 600,000 citizens. It is an urban county, a part of the Bay Area with all the urban problems that exist in this area but with few private agency activities. This is because the population growth of the county has been fairly recent and thus rather than older established cities, the county has developed around suburban shopping centers. A recent study of open and closed client records among the four major human service departments, elicited the following data on open and closed records: Health Department, 104,000; Medical and Mental Health Services, 242,000; Public Welfare, 454,000;

and Probation, 53,000; for a grand total of 863,000 open and closed records, representing 1,3000,000 persons. I am sure you will agree that these figures represent a significant total. There can be no doubt in anybody's mind that economic dependency and the provision of financial aid is not the only problem affecting our families and is not the sole solution to helping them regain and maintain economic independence. I would suspect these kinds of statistics can be duplicated in any urban county throughout the United States. Most certainly, this represents a problem for local government that cannot be ignored by Congress.

We do not know these multi-problem families. We have no idea how many families are being seen by more than one agency, and we are not able to bring the problems of these difficult cases into focus and thus be able to deal with them effectively. We do not have enough information so that as managers we can plan, share, and discuss what steps to take to become more effective. We need a system that will allow interaction between Social Services and Income Maintenance in a way not now possible. It would allow these programs to interact with other programs and agencies, both public and private. It would allow legislators to better understand the multiple nature of family and community problems and more successfully provide legislative support to overcome these problems. Such a system will not be achieved in any viable way without federal direction and mandate.

I have mentioned at some lengths my serious concern regarding separation and the need to support social services for those who are receiving public assistance and the involvement of the community in this regard. In addition, I believe that support must be given towards development of human services systems -- in most cases, computer based -- which will provide the structure, tools and methodologies needed to assure that effective services are given to those in need and to assure that the services that are most appropriate for the task to be achieved are available. Such an approach not only provides direction and guidance for those staff working directly with citizens but provides information to the various departments and to local boards, state governments, federal officials and legislators. Very few local or state entities are prepared to introduce such a system,and it is my viewpoint that little support is given to those areas where the need for such a system is recognized. In such a system, I feel the following components are needed:

1. A Community Resources Inventory -- such an inventory would provide information regarding public and private resources, their accessibility, services available, service functions, eligibility and other data regarding the community and its citizens.
2. Information and Referral -- an integrated I & R service would utilize the most common use components of the resources inventory, common index and referral system.
3. Classification of Services and Problems -- All agencies will use the same definition of services and problems. These would include services specified under Title XX, social services and those given by other public and private agencies.
4. Program and Problem Evaluation -- This would provide for determination of the impact of the services upon clients in a measured way, using a common set of outcome measures across service programs.
5. Cost Accounting -- This would allow each unit of service to be measured. One cost accounting system could be used for all departments, public or private. This would allow some determination to be made on cost effectiveness.
6. Management Information System -- This would contain the various human service programs and projects such as Income Maintenance, Social Services , the services to the elderly, probation services, health related services, and community services where appropriate. All transactions, input, output, data characteristics and their utilization, could be contained in such a system.

7. Client Tracking -- This sub-element would be a part of the Information and Referral System, but it also would allow for a client or family to be tracked both within and between agencies to assure service follow-through, avoid duplication and provide for more efficient use for resources.
8. Case Management System -- Such a system would assure that appropriate services are available to clients and their families and that required service actions and treatment were promptly and appropriately taken.
9. Social Problem Analysis -- This would provide for a needs assessment throughout the community regarding social problems, problems of individuals and families and resources needed to meet these needs.
10. Community Objectives -- This would provide for more measureable community objectives which would be established as a result of identifying social problems and community needs. It would provide the basis for appropriate allocation of resources.

One might ask oneself how this relates to federal legislation and the AFDC Program. I believe that there is a strong relationship because the field of human services has become extremely complex and very difficult to classify and manage. The sheer numbers of people and the complexity of the services provided them, along with the multitude of constraints and regulations have tried the ingenuity of administrators and staff at all levels of government. I am sure this has caused serious concerns to legislators in their attempts to provide programs which can be effective and responsible; yet meet the needs of our citizens.

In addition, the magnitude of the problem has increased of late because of added variables, such as the curtailment of funds available for services, the impact of inflation upon the limited funding base, the uncertainties of revenue sharing between the different levels of government. Also there are rapidly developing pressures from a variety of groups demanding services be made more flexible and available while at the same time other groups are demanding more accountability and organization in the delivery of these services. All these are reasons why we must deal with the need for a human service delivery system and legislation must mandate such a system and then provide the funds for its operation. In my opinion, there is no other way in which we can plan programs that deal effectively with broad community problems unless we are able to handle the volume of the demands on our funds and services and have adequate information for proper planing and priority setting.

Mr. **Fountain**. I want to thank all of you for very thought-provoking statements.

We have heard a lot of information presented from different points of view, but yet the themes are basically similar.

Dr. Dempsey, you observed that pending total welfare reform, which may be some years away, interim improvements can and should be made. I think that is consistent with the purpose of these hearings.

We appreciate your bringing to our attention the recommendations of the National Council of State Public Welfare Administrators, as well as your own personal observations and recommendations.

You make reference to the complexity caused by Federal law and regulations. That, of course, rings a bell for all of us here, because we live constantly with complex laws and regulations.

But are these specific areas in which Federal rules and regulations are more complex and demanding that the law requires? Are there specific areas?

Dr. **Dempsey**. I think there are specific areas in almost every conceivable place.

The best example, in my opinion, sir, would be title XX. When title XX was added to the Social Security Act by the Congress of the United States, my recollection is that it ran about four pages.

When HEW put out their regulations, they ran about 70 pages. They then published a program instruction manual for the States that ran over 1,200 pages.

Everything we do, in effect, is subject to review and, in the end, disqualification.

There's a very interesting problem here. When Congress does what I think we all applaud—write simple laws and write them briefly—what it does frequently is say: The Secretary shall determine; the Secretary shall prescribe; and so on. So what you do, in effect, is have a transfer of the detailed decisionmaking process from Congress to the bureaucracy.

Now I'm a bureaucrat—at least I have been for 9 years, although I'm not one by career—and I know the dilemma. The bureaucrats, in effect, are just as concerned with the public interest and public funds as anyone else. Each of them sees only a piece of the problem, and they try to do that piece perfectly. The result is a complex maze.

One of the origins of this whole problem is the fact that the programs we're talking about came out at different times from different committees. Inevitably, there's a difference between this committee and the Committee on Ways and Means and the Committee on Agriculture, and so forth. When you have human beings involved in trying to build a good system, they each try to get their position in.

Then we have the programs amplified by regulations—by HEW, HUD, Agriculture, Labor, et cetera. The result is that in the last analysis, you get down to John Jones or Mabel Brown who's the first-line worker in California or West Virginia or Michigan, and it's just terrible.

We have a set of manuals that every worker in my department is supposed to be familiar with. If a worker is really a specialist—let's say they do nothing but medicaid eligibility determination—they can handle it.

But my State varies fantastically. I have 83 counties, and each county has its own office, in effect. Our smallest county is Keweenaw County where we have a staff of four. Our largest county is Wayne County where we have a staff of 4,200.

The first week I was in this job, I said, "I want on that window shelf a set of manuals." I cannot reach from end to end. They are over 6 feet long.

Now, that isn't so much of a problem for the worker who is really a specialist, but when you get to Keweenaw County, that firstline worker is supposed to know every policy of the State and the Federal Government. And I say to you, "Nobody can digest a Harvard shelf of books."

But that's the result of the system.

One of the things that I think would really make great sense is this. The money you put in, you put in to serve people. You obviously want some guarantees that they're being served, and that the money isn't being wasted.

But by specifying in such detail, you have built in an administrative complexity that means increasingly more and more money is going to administration.

Your staff report says that the cost of administration has more than doubled—in fact, it has quadrupled—in the last 10 years. One of the reasons is because of the detailed requirements.

When HEW started saying, in effect, we're going to impose sanctions, and unless the State improves its performance, we're going to take money back, every State in the Union expanded its staff substantially.

My department in 1965 had 3,500 workers. Today we have almost 15,000. Administrative costs have increased fivefold. The caseload has gone up but not that much. So as someone piles more and more detail on, the only response is to get more and more people involved. That means you have to have more and more instructions, more and more protection, and more and more guarantees. You get to the point where—the miracle is that the system functions.

The one thing we do well in Michigan is that we write checks well. We have not missed an AFDC payroll in 12 years—in the sense, we have not had a mechanical problem and have not gotten them out and so forth.

And that's really what the system is designed to do. And we do it, I think, quite efficiently.

As I said in my statement, I would estimate the amount of fraud, abuse, and error in the Michigan system as somewhere between 5 and 8 percent. That's a big number, but it means between 92 and 95 percent of our transactions are virtually perfect.

You mentioned in your comment the high error rate. HEW measures an error like this. If we pay a family $5.01 too much in a month, that's an error. If we pay them $501 too much, that's an error. There's no distinction.

When you take the mispayment of dollars nationally, it's about 8.5 percent. That means the system is doing its job in 91.5 percent of the cases technically flawlessly.

I submit to you that no human institution, including the automobile companies in my State, have produced 91.5 percent of their products perfectly. Every time you pick up a paper you see that one of the auto companies is recalling 50,000 to 300,000 cars because of a defect.

If you take our defects and measure them with any other human institution, I think we do as well or better.

Mr. Wydler. I don't want to argue with you, but actually I don't think that is a fair analysis. Just because you only found 8 percent errors doesn't mean you are doing 92 percent correctly. It doesn't work that way. It just means maybe there are a lot more errors you haven't found. That's a possibility, too.

Dr. Dempsey. I don't really believe so, sir, because the quality control system has been substantially sophisticated. It uses the same techniques that Gallup and Roper use to predict an election.

I'm always appalled the night before an election, or at four in the afternoon, to discover that Carter won or Nixon won, or what have you. I resent this, because I don't like to think you can sample 1,800 people nationally and tell what 80 million people are going to do. But they're always right—at least they've been right ever since 1936.

The quality control system uses scientific sampling. In my State, they take in about 2,100 cases every 6 months and review them in total. When they get through, we do lot reviews to check; and we find that there is a vast correlation between the results of the quality control system and the whole thing. I wouldn't say that obviously there is a perfect correlation. But what I'm saying is that if the error rate nationally is 25 percent—that's every case that is measured scientifically and on the basis of sampling in which there is an error of $5.01 or more—that doesn't mean that 75 percent are perfect. A lot of those 75 percent are probably making errors from 0 to $4.99.

But I am saying that the system by and large is better than people think.

Part of our dilemma is that HEW for 8 years has been hitting us over the head, saying in effect that the States can't do it.

As I said in my statement earlier, sir, when HEW took over the SSI program, they didn't do it as well as we have been doing.

The problem is complexity.

Mr. Fountain. I'm reminded of the complaints the subcommittee heard many years ago when it was alleged that HEW issued volumes of informal guidelines, rather than regulations, which the States were expected to implement.

Do you feel that HEW policies today for AFDC are the result of formal rulemaking proceedings in which the States have had adequate opportunity to be heard?

Dr. Dempsey. There is more opportunity to be heard today than ever.

Secretary Mathews, in one of his actions, changed the process. Instead of putting out a proposed regulation and allowing us 30 days to comment and then sort of ignoring the comments, they now publish an intent to publish a regulation and we have time to comment before they actually draft it. So there is more involvement of the States today than there was 1 year, 2, or 5 years ago. Things are improving there.

Mr. Fountain. You recommended that States have the option to develop either a retrospective or prospective system of income budgeting. I assume you mean provided the system adopted is consistently used for all clients.

Are there circumstances under which one system would be more advantageous for a particular State over the other system?

We heard testimony last week that retrospective budgeting is more objective and precise and, therefore, adaptable to computerization. Would you agree with that characterization?

Dr. **Dempsey.** Retrospective budgeting is much more accurate and precise. Therefore, I would prefer it. It raises one slight problem. That is, the family who suddenly, for one reason or the other, exhausts all of their resources and may not be eligible for a short time. That could be taken up through emergency assistance or what have you if that were softened to a degree.

Mr. **Fountain.** The subcommittee will stand in recess for another vote on the floor.

[Recess taken.]

Mr. **Fountain.** We will resume the hearing.

Mr. Aspin, would you care to ask some questions at this point?

Mr. **Aspin.** Not at this time, Mr. Chairman.

Mr. **Fountain.** Dr. Ginsberg, you favor a return, on a national basis, to the declaration system of establishing eligibility and assistance payments. Your position, as I understand it, is that personal interviews and investigations are very costly—and that's obvious—especially in sparsely populated rural States.

On the other hand, Dr. Blanche Bernstein, the New York State deputy commissioner for income maintenance, testified last week that the self-declaration system was "a disaster" in New York. She said it was largely responsible for New York City's high ineligibility rates.

Is it your view that a self-declaration system can be made to work in an urban setting? If so, would you tell us how, in general, you would implement it in New York City, or any other large city?

Dr. **Ginsberg.** Being from the third most rural State, it's hard for me to give advice to New York City, although we have urban areas.

Mr. **Fountain.** I thought you might have an opinion on it.

Dr. **Ginsberg.** I have an opinion.

I thought that the income maintenance experiment in New Jersey, which included mostly urban areas, indicated the self-declaration system was not a disaster. So it may be the way in which it's accomplished, and the effectiveness with which it's implemented.

I think that probably having an effective quality control system is the most important part. A good system for following up on applications and publicizing sanctions is probably the most effective.

It would be interesting to me to see if the same thing holds true in New York City for other self-declaration systems, such as the Federal and State income taxes and other things that operate with the declaration system—I don't know. But my guess is that the key factor is the quality control and the sanctions applied after the quality control reveals fraudulent applications.

Mr. **Fountain.** Would either of you other gentlemen like to comment?

Dr. **Dempsey.** I don't think the problem is the declaration system or the detailed questionnaire. I think the problem is the folk wisdom.

Historically, I think the prevailing attitude in Michigan has been, first, if you cheat you won't get caught; and, second, if you get caught, they won't do anything to you.

One of the things my department has done in the last few years is to develop a relationship, first of all, with the U.S. attorney, because there is Federal money in all of these cases. We've had the Internal Revenue Service, the Postal Service, the FBI, and others working with our inspector general.

The result is that we have indicted and convicted probably, in the Wayne County area, 200 people in the last 2 years, plus another 200 public employees who were also drawing benefits on the side.

I think once you start finding people and publicizing the fact that they're getting caught and they're getting sent to jail, that has a tremendous policing effect.

One of the things I would suggest is that Congress and HEW substantially increase the degree of commitment on the Federal Government's part to fraud detection and prosecution.

In Michigan, I can't prosecute anybody. I refer it to a county prosecutor or to the U.S. attorney or to the State attorney general.

Because we are now putting people in jail, our ineligibility rate is going down drastically. I think that's a major reason. If you cheat, you're going to get caught; and if you get caught, you may go to jail. That has far more to do with the integrity of the system than the question of whether it is declaration or detailed interview.

Mr. FOUNTAIN. You mentioned 200 convictions. How many of these actually went to jail?

Dr. DEMPSEY. There were 200 convictions and another 200 indictments. Of those 400 in the Wayne County area, I would suspect about one-third of them really went to jail. Others were put on probation, suspended sentences, and all were ordered to repay. Those who were not able to repay did go to jail.

We had a couple of very embarrassing things. We had a couple of employees of the legislature whom we discovered were drawing welfare, too. They both went to jail. One of them had worked in our house for 9 years, and she got a 6-year sentence.

That has an effect that is galvanizing.

Mr. FOUNTAIN. Mr. Jornlin?

Mr. JORNLIN. I would agree with Dr. Dempsey in what he says, but I have some dispute with the declaration system—at least in the urban areas of California.

We administer the program at the county level. In the bay area, where I live, we have San Francisco, Alameda, and Contra Costa all together. I would have some problem with that.

But I think there are other kinds of administrative procedures and methods you can use to help deal with fraud which might have some impact on whether or not you use the declaration method.

One of the things we use in California is the earnings clearance report which we get from the State which compares earnings of all persons in California and those who draw unemployment. We can then make comparisons of our own welfare rolls.

But I would be concerned with the declaration method in an urban area.

Mr. FOUNTAIN. Dr. Ginsberg, in favoring a common national floor for welfare payments, with no regional or urban cost adjustments, is it your intention that this uniform allowance cover rent or housing expenses, regardless of their actual costs in each community?

Dr. GINSBERG. Yes. My intention is that this national floor would cover basic living expenses—housing, food, and all the nonmedical and nonspecial nutritional programs, and so forth—for our clients.

One of the reasons I propose this is because of the fallacious reasoning about housing costs, which indicates that because rent is much higher, say, in New York City than it is in southern West Virginia, welfare payments should be higher in New York City than in southern West Virginia.

The reason for the differential is often because there is not adequate housing to rent in southern West Virginia. I think that acting as if there are real differences in cost between urban and rural areas, or northern and southern parts of the United States, perpetuates inadequate housing in rural America and in the South.

I think this is one of the unintended, but real, effects of the AFDC system as it currently exists.

The other thing that's interesting is that the differences in housing costs are often a function of property tax rates. What you get for your property taxes in urban areas is often a lot more than what you get in rural areas.

If people had money to pay more rent, perhaps, in the southern and rural parts of the United States, they might be able to pay higher property taxes and might be able to have better services—better human service programs and cultural services and educational programs—than they now have.

So I think that the differential which is often based on housing costs perpetuates the problems—which I don't think we want to perpetuate.

Mr. FOUNTAIN. Dr. Goldberg?

Dr. GOLDBERG. Thank you, Mr. Chairman.

Dr. Ginsberg, are you viewing the AFDC system as an instrument for achieving longrun equalization of services and living standards, such as the availability of adequate housing, or is the system intended to meet needs where they exist here and now?

Unquestionably, when comparisons are made between New York and West Virginia, one is talking, not only about the pricing of identical goods and services—which would not differ tremendously on a geographical basis—but also about differences in living standards. These, in turn, create large price differentials in the existing supply of the items involved.

In New York City, housing costs are extremely high, particularly for low-income people, because of a number of factors, including the pressure of demand on supply and high property taxes which reflect, in part, the level of public services.

Under the policy you advocate, wouldn't the welfare family in New York City, faced with a very high rental cost, be paying most—or even all—of its AFDC monthly payment for housing alone if we had a uniform assistance standard throughout the United States?

Dr. GINSBERG. One of the things I suggested was that there could be, and ought to be, State supplements. Some States may want, and may be able, to add to this national floor.

The other thing is that the kind of housing in southern communities and in Appalachia is often so inadequate that there is no indoor or outdoor plumbing. That's the kind of housing that people purchase.

So it is not a matter of it just costing less to live. It is actually dehumanizing and unsafe and unhealthy housing. Perhaps if people had more, they could buy better housing; and there would be an incentive for better housing to be constructed for low-income people in the kinds of communities I'm concerned about.

The other thing that's interesting, in terms of the market basket or the goods and services that people need to buy, is that while housing is more expensive in urban areas and places such as New York City, there are other services that are essential that are much more costly in rural areas than they are in urban areas; transportation, particularly.

I think the studies that the Welfare Reform Advisory Group has developed indicate that rural transportation costs about 125 percent of what transportation costs in an urban area. Perhaps transportation is even more vital in a rural area. We don't talk about that as much as we do about housing.

I think if you take all of the things that low income people need to buy and put them together in one package, you can make a very strong case for equalization—or at least a national floor.

The other question is: What is the real purpose of AFDC? Is it to meet current needs currently, or is it to equalize standards of living in the United States. I think it operates on pretty irrational grounds now. There is no correlation between—at least not a direct correlation between—needs and costs and the payment levels from State to State in any way that I can discover.

Second, I would like to see it serve as a policy tool to provide at least a minimum guaranteed standard of living for Americans.

Dr. **Goldberg**. I would like to hear Dr. Dempsey's and Mr. Jornlin's views on the desirability of a national uniform floor, as advocated by Dr. Ginsberg.

Dr. **Dempsey**. I personally agree with Dr. Ginsberg. I think the differences within a State, or between States, are not as large as has been said.

I agree that there is a problem with housing in New York City. I don't think we should develop a national system to solve a problem in New York City, which the national system won't solve anyway.

But in my State, for instance, we have four shelter cost areas. In the upper peninsula, we pay a maximum of about $80. In Detroit, we pay a maximum normally of about $130. So there's a rather substantial range.

But Dr. Ginsberg is right. Someone in the UP, to get to the welfare office or employment office or what have you, can't take a bus, and usually they can't take a cab because we don't have buses or cabs. So they either have to beg, borrow, or steal a ride, or they have to own a car. And the cost of keeping a car up is more than the cost of public transportation, even if public transportation goes up.

So I, personally, would agree that a national floor is needed. I think that the States could be allowed to supplement within a range to provide particular responses to a problem like New York City's housing.

On your first point, Dr. Goldberg, I'd like to make a comment.

I think the AFDC should be designed to help people today. But there are going to be consequences for people tomorrow.

A substantial consequence of the initial decision to provide assistance to the family whose husband had decamped was certainly not to encourage family stability. I don't believe very many men leave their wives just so the wives can go on welfare, but I do think there is a tendency to make it easier to leave if you know the family is going to be better taken care of.

I also think that the migration—not so much from North to South but from State to State—has been created, or at least has been exacerbated, by the spread in cost—the difference.

I don't think very many people leave Mississippi, Alabama, or Georgia to come to Michigan to get on welfare. I suspect a few do. Most of them come looking for jobs. Most of them when they come get jobs. When they lose that job—and Michigan has a very cyclical economy with a preponderance of heavy manufacturing—they know if they go back to Mississippi, they can get $778 a year for a family of four. If they stay in Wayne County, they can collect $5,020 for a family of four, plus food stamps and so on. There's no incentive for them to go back home.

So I think some of the migration, which is job oriented, becomes a welfare condition.

But a better case in point is this. We share a common border with the State of Indiana. Our standard of need for a family of four is $422. Indiana's, I think, is about $397. We pay 100 percent of need; Indiana pays about 65 percent. So a family living in South Bend can move from South Bend to Benton Harbor, a distance of about 10 miles, go on welfare in Michigan—since there can be no residency requirement, as you know—and increase their income by approximately $140.

We find, not surprisingly, in the southwestern part of the State, a lot of folks who were in Indiana recently.

So that's a problem. Our legislature gets mad, and they pass laws that we won't pay any welfare benefits to anybody until they've lived in Michigan for a year. Then, of course, we have to ignore them because the Supreme Court ever since *Edwards* v. *California* said you can't do it.

So those are consequences of the system that were not intended and weren't foreseen, but they're there.

Mr. **Fountain**. Mr. Jornlin?

Mr. **Jornlin**. I can only comment on one part of it.

I believe the program was created to help families stabilize and to allow children to grow normally. It bothers me to watch what happens to some of these families when there are inadequate funds for them to live on.

The kinds of costs we pay at a later date, in terms of what happens to the children, bothers me.

I would feel that the program probably should be to provide for what they need today.

In terms of the national floor, as a local director, I'm not in a very good position to really comment on what California might or might not want.

Mr. **Fountain**. Mr. Duncan?

Mr. Duncan. Thank you, Mr. Chairman.

I would like to follow up one question here.

What would you set that level at—the minimum payment?

Dr. Dempsey. I would set it as an objective at the poverty level, which is about $5,500 for a family of four. I would build that into law.

I recognize that you can't pay it today, and therefore you do what some States do. You pay 60 to 80 percent of the standard. But the objective would be the poverty floor.

I would also say that the States could supplement, but not above the BLS moderate-income budget. So, in effect, the difference between the high-benefit State and the low-benefit State would be no more than 20 percent.

I think, over time, you could bring them together so they would be almost common.

Mr. Jornlin. It seems with a national floor which is set without some variation, it is going to, in a sense, almost put us in a position of having welfare families move because of welfare benefits.

In my county at least—our housing has almost doubled in the past 4 years—I don't know what would have happened if we had found that a national floor forced the county or the State government to provide for additional costs of housing.

I suspect people might move out of my county. I'm not sure if that's good or bad. But I don't think families should move around because of welfare benefits.

I think people come into a geographical area because of employment opportunities or because they have relatives there, or they want to find a different way of life.

So I would be worried about a national floor which, in a sense, didn't recognize some of the ups and downs of the economy in different parts of our country.

Mr. Duncan. You do not feel, then, that we should have a standard for all areas of the country and that it should vary by certain economic factors, like the cost of various services in one area or another?

So you, in a sense, don't agree with Dr. Ginsberg?

Mr. Jornlin. Not to that extent at least; because, if you don't recognize that, I don't know what you'd do with a family in my county where a house that was worth $50,000 4 years ago is now worth $100,000 and the average rent for a mother and three children is $300 a month, and she only gets about $400 a month.

Dr. Ginsberg. In terms of the amount of a national floor, I wouldn't have any difficulty at all with that $5,500 figure as a target, which Jack Dempsey suggests. I was thinking in terms of $4,800 as being somewhere around a reasonable figure for 1978. I think that's what the Califano proposals are. They're in about that range.

I also think that——

Mr. Duncan. How many States are already above that $4,800 figure?

Dr. Ginsberg. I don't remember. One-third or so.

Dr. Dempsey. If you cash out food stamps, which they're talking about, and make direct payment, I'd say between 15 and 25 States are above it now.

Mr. Duncan. So it's about half.

Dr. Ginsberg. It's close to half. West Virginia was right on the edge of being in the middle. It was right around not gaining and not losing under the welfare reform proposals, assuming the cashing out of food stamps.

I think the proposal is $4,200 as a floor with a $4,800 actual payment in 1978.

I don't think you can solve the housing problem by manipulation of the AFDC program. That's a very serious problem, but I doubt that AFDC has a lot to do with causing or solving it.

Dr. **Dempsey.** When we raise the housing allowance in Wayne County by 15 percent, the first thing that happens is that everyone's rent goes up 15 percent. So it doesn't help the client.

Mr. **Fountain.** If a single, uniform AFDC Federal benefit standard were adopted as the floor, set somewhat above the standards now applicable in the poorest States, do you think it would be equitable and acceptable to the States for the Federal Government to share 80 or 85 percent of the payments within that national standard, and then to pay 50 percent of the optional State supplemental payments up to a specified maximum?

This is a far cry from what the administration is talking about, but I thought it a good question to pose.

Dr. **Dempsey.** I would personally think that was heaven arrived. [Laughter.]

Dr. **Ginsberg.** That's a good way to put it; I would certainly vote for it.

Mr. **Fountain.** In your judgment—any of you—how feasible would it be administratively to determine eligibility through a single, combined application for AFDC, food stamps, and medicaid if the law permitted the joint administration of these related programs? Roughly how much might be saved in administrative costs in each of your States?

I know you can't give exact figures.

Dr. **Ginsberg.** Not the dollar amount on it.

I don't know—maybe a third of the cost of doing the eligibility determination process. There would also be a big savings to clients in terms of not having to go through as many procedures as they now do.

Dr. **Dempsey.** I would personally estimate we would have at least 20 percent in administrative costs, and probably closer to 40—in this sense. Right now, in our intake system, we say, in effect, the worker can't be expected to do more than one application in 4 hours. Because if it's one case, they have to prepare three or four—and sometimes five—applications.

If you had a single application and it had common criteria and so on, they could probably do it in an hour. So, in effect, they could increase their productivity from two a day to four, five, or six a day. That would inevitably lead to substantial administrative savings.

I would say well over 20 percent.

Mr. **Jornlin.** I think the problem in that is not so much in the administrative savings as in the fact that if you change the requirements, the State might have to appropriate more funds, depending on what level of program was accepted—the food stamp program, medical program, the AFDC program. So I think that's one of the problems which the State would have.

I think the other problem you would have is public attitude. The food stamp program is very broad in eligibility and if you accept its standards, you put more people on AFDC.

So that's the other kind of problem you have—the public attitude toward the extent of the various programs.

Mr. Fountain. I should say: Assuming no additional cost would be added to the States.

Mr. Jornlin. Then I think the Federal Government would have to look at the same kind of problem as to the criticism that Congress would get in terms of citizens saying how come so many people are on AFDC if you accepted food stamp eligibility. And vice versa.

Mr. Fountain. Mr. Jornlin, your very thorough discussion of employment and employability of AFDC family heads, as seen from the county level where the program is administered, raises basic questions, I think, about the way we try to solve problems here in Washington—through programs like WIN and CETA.

You state: "Legislating who is employable does not work; but it does create a tremendous bureaucracy and paperwork load in order to benefit a few."

I want to be sure I understand your position correctly. Is it your view that mandatory work registration requirements are not meaningful, unless the jobs created match the skill levels of the AFDC recipients and unless the employment programs also provide opportunities for remedial education, teaching basic skills, and so forth?

Mr. Jornlin. No. My concern is that it's not just the registration in itself. It's the fact that many of the agency clients or applicants are really not employable. And our labor department offices do not want to deal with that type of person.

So we really have to go through a tremendous amount of paperwork at the county department to receive our Federal and State funds and to keep people eligible.

But as far as finding jobs in the job market for this type of person, this process is not fruitful. We're suggesting that we go back to the old title V program, where you recognize education needs and training before you get to the job placement.

We tend not to have the funds to provide for that date. In fact, my county, I think, is one of the few counties in California which retained its vocational services staff a few years back when they were no longer required because of our concern for job placement and training, although the staff did not have the funds to carry that out.

Mr. Fountain. Dr. Dempsey, what is your opinion concerning Mr. Jornlin's views on the WIN and CETA approaches for employment of AFDC family heads?

I believe Dr. Ginsberg's testimony indicates that WIN works well in West Virginia. Does this suggest a basic difference between rural and urban States?

Dr. Dempsey. I think it suggests a basic difference. I'm familiar with the West Virginia program, and it's really an excellent one and we wish we could do it in Michigan but we can't for a hundred reasons.

I think the WIN program is vastly exaggerated in terms of its consequences. I don't think it has any really.

In Michigan, I have 199,500 families on AFDC. If you apply the WIN criteria, over 100,000 of them are required to register with WIN and be certified. That raises another problem.

We have about 12,000 WIN slots at maximum, and I would suspect the vast majority of those slots are revolving slots. We train people to be welders, and then we train them to be better welders, and so on.

It doesn't, in my judgment, really produce jobs for a reason that's quite clear.

We have 500,000 people unemployed in Michigan. Most of them are people who are unemployed because of problems within the economy. Most of them have job skills.

The employment service is desperately trying to service those 500,000. So my 10,000 to 15,000 WIN clients come in. Let me be very careful: They are considered by some as socially undesirable; they don't really have skills; they don't have much capacity.

What Mr. Jornlin is saying, in effect, is that what happens is that we have a bureaucracy which perpetuates itself—processing papers and opening and closing and clearing and following up and so on, but we don't have jobs.

That's the dilemma, I think.

I think the title V program was a much better program.

One of the things that frustrates me terribly is that under the Social Security Act, we cannot, as a condition of eligibility, require a client to take a job if one is offered. We have to require them to register with WIN.

In Michigan, we have started an experimental program in one county—Kent County—where we have, in effect, developed an education and training program that we thought was allowed in the aftermath of that—*Dublino*—Supreme Court case out of New York. We have now been told, in effect, we can't do it.

We have a class suit brought against us by six recipients. In effect, the answer to it would be very simple. We could take them out of the AFDC program and put them in the WIN program, and then they'd have to work.

But the fact that we're doing it in a different way presents a difficulty.

I don't think WIN and CETA have done much for welfare families. CETA, in my judgment, has been largely a way to transfer funds and maintain payrolls and public employees, and very few welfare families have gotten placed as a result of it.

Mr. FOUNTAIN. Is there general agreement on that statement?

Mr. JORNLIN. That is my feeling.

Dr. GINSBERG. I might cover that kind of concern.

I say WIN works well in West Virginia for a variety of reasons. But I still say we ought to combine all these and treat them for what they are—an economic security program.

Mr. FOUNTAIN. Mr. Jornlin, you stated very strongly that the separation of the income maintenance and social service functions mandated by Congress had had a serious detrimental effect on the ability of State and local government programs to help families in trouble.

I'd like to find out at this point if the other witnesses agree that the separation of these functions in welfare agencies has been an undesirable step.

What are your respective views?

Dr. DEMPSEY. I think Dr. Ginsberg spoke to that, and I'm sure he'll respond again.

Personally, I agree with the gentleman from California, particularly when you get into the larger offices in the larger areas.

I would add, Mr. Chairman, that one of our major problems is that most of the difficulties and dilemmas in this system are urban difficulties and dilemmas.

Take the error rate. I have 83 counties and my ineligibility rate in 80 of them is below 3 percent. But in the other three it happens to be quite large. So if you take the State as a whole, it is quite high.

But my feeling, very frankly, is that if you go into one of our offices in Detroit—for instance, the Kercheval office which we are now breaking up into seven offices—we have a three-story building with 600 employees. The 200 on the first floor are AP; the 200 on the second floor are services; and the 200 on the third floor are WIN and a variety of other things.

The client doesn't really get looked at as a human being. He or she gets looked at as a person who needs money. Then, if by chance they need something else, in effect they're passed to the second floor.

In a large urban area, where you have massive problems of absenteeism on the part of workers and so on, the client conceivably in the course of 6 months could be dealt with by 10 to 20 different workers. Now that's inhuman.

What we're trying to do, in Wayne County particularly, is to go back and unite and build a team of, say, 10 people of whom 6 or 7 are AP workers and 3 or 4 are service workers.

They take a common caseload—maybe it's 1,000 or 1,500 cases—and under a single supervisor, they service that whole load.

They are familiar with each other. It helps us cut down duplication; it helps us cut down waste; it helps us cut down shopping around, and so on.

So I think that you can never get to the point that every worker can do everything. But I think that the mandatory separation which said workers can only do one thing or another, went too far and I think it should be relaxed, as it has been under title XX.

Dr. GINSBERG. I started studying that problem about 1959 in a group masters project in Tulane. We concluded then—almost 20 years ago—that certain cases needed social service specialists and certain cases didn't. Those that didn't shouldn't get them, because it tended to stigmatize them as being social problems or people with psychological problems.

I agree that separation has caused some difficulties in administration of programs. On the other hand, what it has done—although maybe it wasn't the goal—has been to define services.

I think social services meant, under the combined system, almost exclusively counseling—as if poor people had emotional problems, which frequently isn't the case.

What has happened now is that social services have become very effective tools for helping people with their problems. They have become defined as day care, chore services, and protective services that I think solve some of the problems of poverty.

So I think we didn't really have much of a service program until the separation, and I think we might abandon it if we recombine them.

Mr. FOUNTAIN. Dr. Goldberg?

Dr. GOLDBERG. Dr. Dempsey, on a collateral line, you mentioned earlier that eligibility determination can sometimes be a very specialized thing—that your manuals are very extensive. I think you said 6 feet long. And that the work force in some of your counties is very small—I believe you said your smallest has only four workers. Is that what you said?

Dr. Dempsey. Four people, including the director and a supervisor. There is a clerk and a worker.

Dr. Goldberg. It is even shorter rations than I thought.

Are there opportunities for multicounty administration when you get into a situation of that kind?

Dr. Dempsey. I'm going to grab that and jump in, and I hope this never gets back to Michigan.

I think one of our major problems is the fact that we used to be county administered. It was State supervision.

In 1965, our legislature bit the bullet and provided for merger. But, as legislatures frequently do, it didn't bite all the way through. It said, in effect, there would be a single State department, and that every employee of that system would be a State employee but there would also be county offices.

Now I think it makes no sense to have a unit in Keweenaw County, which is that little finger that points out into Lake Superior which I'm sure you're all aware of.

There is a caseload of 80 families. The office is very, very close to the office for Houghton County, which is right below it.

I would like to see us in Michigan abolish the county as a unit and go to some sort of a geographical grouping that made more sense. But, I can't do it administratively; it would require legislation, and our legislature is looking at our social welfare act.

When you passed the 4–D program, the child support program, you said, in effect, there had to be a single administrative unit administering it.

I have several hundred people working in child support. They should be based out in the working offices and, in effect, they are. But under the SAU rule, as interpreted by HEW until last Friday when I finally got a letter rescinding it, I wasn't allowed to have them under the control of the county director.

Mr. Jornlin will tell you: If you're going to put people in my building, I have to control them. And the only answer to something like that is some sort of a geographical or regional approach.

So I don't think the county unit, as such, makes sense. When you get into Wayne County, I think it should be broken down into subcounties. We're breaking it down now to 28 district offices. Each of those offices will be larger than 78 of our county offices.

So the county makes no sense. I think, frankly, the Michigan Legislature should face that. But we get into that terrible problem of local politics, which you're all aware of I'm sure.

Dr. Goldberg. That's very helpful.

Mr. Jornlin. I would suggest that what Mr. Dempsey said is very correct, but it is true not only for AFDC but for all human service programs—food stamps and others—certainly in the bay area.

A part of my county is very much a part of Berkeley. Quite often, people in the Berkeley Alameda area do refer persons to my county because we have a different philosophy in my county than Alameda County has.

But I think this is true for all kinds of programs—employment, agency and others—and especially social services.

Mr. **Fountain**. Have any of you made any suggestions to HEW from time to time as to ways in which they could improve the administrative machinery of the program and make it easier for you on the State and local levels to operate? Are you given an opportunity to do that and have you found it meaningful, or it is just something that gets in the office and is filed away?

Dr. **Ginsberg**. I'm too new to know what the full impact is. All I know is I had to start cleaning up the language in the letters from our State office to HEW, because the correspondence was pretty hot.

We do have an opportunity to make suggestions—how well received they are and how much impact they have is hard to say. It is probably not as high an impact as we would anticipate or would like.

Dr. **Dempsey**. I would say that we have not had much chance, and what chance we have had we have used and what we have done has been pretty well ignored.

I would have to add that's my experience in 2½ years. When I first came to this department there was the Watergate problem, and there was the probability that we might have a change in administration and down the line. HEW Secretary Weinberger left. Dr. Mathews came in. He knew he wasn't going to be there very long. There just hasn't been anyone minding the store at HEW in my judgment. That's a harsh statement, but I do think it's true.

Mr. **Fountain**. Mr. Jornlin, the California cost containment plan which you described apparently has been successful in keeping administrative costs significantly below those in New York.

You characterize the plan as a shifting of cost from one government level to another—in this case, from the State to the counties, which actually administer the AFDC program.

Could you simplify somewhat on the cost containment approach you would prefer? You said it would be more useful if the State or Federal agency would identify those administrative approaches that are most cost effective and share that information with the counties and other administrative agencies.

While I can see the merit of that approach, do you think it would serve as an effective substitute for the present California plan which includes penalties to keep the pressure on the counties?

Mr. **Jornlin**. Mr. Chairman, several years ago, California in its attempt to reduce administrative costs, did go into this cost containment plan.

The objection I have to the plan is the simple averaging. We have 58 counties in California. The State took the highest and lowest number of cases handled in intake for all 58 counties and then funded each county based on an average number.

I feel that 58 counties are different from California.

For example, in one county, when you come to apply at the office, you're given a number of forms to fill out, and you're told to go home and fill them out. In my county, we help the applicant fill them out. The time to help an applicant is a cost factor. As long as the State law allows for some difference in approach, it seems to me that should be recognized by the State.

In addition, in my county, in our attempts to try to keep our error rate down, we did devise a number of specialized units which cost money. Unfortunately, they do not carry a case and therefore they could not be covered under cost containment.

My feeling is that if you're going to have those specialized units or if you're going to help the client or applicant—and you're allowed to do this—it should be recognized that there is a cost. And that is not recognized in California.

We have just recently gone through a food stamp audit on the part of Federal auditors.

Several years ago, we had an outstanding record for our overpayment recovery rate in food stamps. In fact, we recovered half of all the overpayments in California.

In my county, we only carry 3 percent of the State's food stamp caseload; however, we had a specialized unit in collections. We had to take that unit out because it was not covered under so-called cost containment.

We now have the Federal auditors criticizing us severely because our overpayment recovery rate has gone way down, and they're telling us as Federal auditors we have to do something about it. We're telling the Federal auditors that the State of California does not recognize that as a cost and California is not concerned about the recovery rate in food stamps. That's why I object. I think there should be some recognition of differences between counties.

Mr. Fountain. Gentlemen, I have to leave. I'm not sure I will be able to return.

They are now debating an amendment to legislation which affects very strongly the economy of my district—peanuts—and before long, it will be tobacco.

I want to thank you for coming and giving us the benefit of your thinking; your statements have been extremely helpful.

Dr. Goldberg. Mr. Jornlin, would you identify for the record, if you can, the consulting firm that you mentioned on page 16 of your statement which HEW has contracted with to identify actions that might be taken to improve the AFDC program?

Mr. Jornlin. I'm sorry, Dr. Goldberg. I can't for the record, because I just learned about it several days before I came to Washington. I just perused a letter, but didn't really try to identify names.

Dr. Goldberg. Dr. Dempsey, in your statement you suggested that State agencies should have the option of determining the accounting period used in computing the amount of assistance payments.

Except for families who have no current income, or whose income remains unchanged over time, isn't it true that a short accounting period, such as a month or quarterly, will more likely prevent inappropriate payments than redetermining need every 6 months, or longer?

Dr. Dempsey. I would definitely think it would be more likely to prevent overpayment; yes. Definitely.

The reason I stuck that in, frankly, is a concern about the administration's proposed 6-month accounting period. If we go to a 6-month accounting period, you are going to produce untold human misery on the part of people who had enough income back in January, February, and March but who are broke today.

If you average their income over 6 months, they may not be eligible until October, but the kids are hungry. So I think that rather than a 6-month national requirement, States should have some option. I'm suggesting that if you go to any single one, you're going to have States quarreling.

If you threw a figure out here today, I suspect we would have three different points of view.

So I think that the important question is the assets question. I think you can do more with a liquid assets test than you can with any accounting device.

Dr. GOLDBERG. What is the feeling of each of you as to what might be the most desirable time period for accounting—1 month, every 3 months? Would there be any consensus in terms of your own State situations?

Dr. GINSBERG. In our error-prone system, we vary it according to the characteristics of the case. That seems to work pretty well for us. That is, cases that have income, for example, seem to cause a lot of errors. They have a lot of errors, so we will check them as much as once a month. Others, only every 6 months.

If States are given the latitude to vary the reporting period with the characteristics of the case, that would probably be the best solution—at least it is for us.

Dr. GOLDBERG. Dr. Dempsey, does your State vary the intensity of the audit, depending upon the characteristics of the recipients?

Dr. DEMPSEY. To a degree, but not a very heavy degree. We have just gotten into this relatively recently.

Our quality control process, plus information from States like West Virginia, is leading us to target in on error-prone cases—cases where there is earned income usually and cases where there is a nonlegal separation. That's another massive area.

So we tend to review much more closely those two types of cases than we do the woman whose husband is dead and who has three young children. The chances are her circumstances aren't going to change.

Dr. GOLDBERG. Mr. Jornlin, what would your preference be for the accounting period? Or would you also favor flexibility?

Mr. JORNLIN. I would favor flexibility as a county director. I can't speak for the State of California.

I do think that our automated income reporting system is an excellent way to control earnings and to catch them monthly. I think you almost have to have a monthly reporting system.

Dr. GOLDBERG. Dr. Ginsberg, with respect to the profile of error-prone recipients used in West Virginia, could you give us a brief description of the kinds of characteristics that identify welfare families as warranting more frequent case review than the average?

Dr. GINSBERG. I'm just looking for that. I have documents which I can leave with you.

It is called the selective case action system. We have a variety of things that seem to make a difference. Income seems to be the most significant. Age, employment, current conditions, current functioning, and also demographic variations seem to make a difference—whether the case is more urban or more rural. Urban cases seem to be more error prone than others.

I brought all of our documents, which are fairly complicated, and I would be glad to leave them with you.

Dr. GOLDBERG. We would appreciate it. Do you know if other States are using a similar profile as a guide to more concentrated investigation of certain components of their caseloads?

Dr. Ginsberg. We're doing a lot of consultation with other States, including California, I believe. I think we had some of our people visiting in California. Jack Dempsey talks about trying to do the same things.

As far as I know, we're the only ones who use this totally as a system for determining the intensity of reviews.

When I saw the last workup of all the States and the systems they use for determining that, ours was the only one that said error-prone profile system.

Dr. Dempsey. We use an error-prone profile system, and we have four major types of cases—the fourth of which I'm reluctant to mention.

The first is cases where there's earned income. The second is where there's a nonlegal separation. The third is where there are teenagers in the family because they begin to get jobs and so on, and are not reported. And the fourth is where the redetermination is overdue.

The older a case is the more probability of error. When we redetermine, it is on an alpha system. Everything that ends in 1 and 2 gets redetermined this month and 3 and 4 next month, and so on.

Since there are always pressures on us to try to reduce our overdue redeterminations, we are constantly re-reviewing. But I think if we could get down to where we redetermine every case within the required 6 months, we would further reduce errors.

Dr. Goldberg. Dr. Dempsey, you noted that Michigan could virtually eliminate fraud by substantially increasing your agency's staff. That, of course, is the kind of tradeoff we must recognize and consider here, and also in connection with standardizing allowances for welfare expenses.

Are you satisfied that the quality control approach serves a useful purpose in keeping the States aware of the magnitude of their error rates?

I'm aware that you aren't completely happy with the Federal Government's quality control system; however, would you address your response to whether or not some kind of quality control approach—whether the existing one or a different type—is a necessary and desirable tool for keeping States aware of the size of their deviations from the norm?

Dr. Dempsey. I'm extremely pleased with the quality control approach of the Federal Government. I have almost no quarrel with it. I could quarrel with a few things—particular things and so on—but I support it entirely. I think it's a management tool that is excellent.

What I object to is what they want to do with it and that is impose sanctions on the basis of a national pattern.

When HEW said the acceptable rate for ineligibility is 3 percent, what they were saying in effect is that any large, urban State is bound to be penalized.

Chairman Fountain mentioned in his opening statement that the error rate and the ineligibility rate varies from virtually zero to 15 percent in the District of Columbia.

The District of Columbia is unique. There is no rural area here. You have masses of people; they are anonymous. So you're going to find the error rates very high in urban centers and places like the District of Columbia.

What I've been pushing for years is that instead of a penalty, an incentive system. To set up some arbitrary norms and to compare States' behavior or an area's behavior with its own behavior over time. We have reduced the ineligible rate in Michigan 50 percent in the last 2 years, and we get no recognition for this. We get nothing. When HEW says they are going to impose a sanction, I know in the end they aren't going to do it. It's a paper tiger; it doesn't work. What I would suggest is that if sanctions are to be imposed, they should be coupled with incentives, and they should be directed only to one part of the program and that's its administrative costs.

When I go to my legislature and say the Feds are going to take away $65 million and you fellows have to put it up, they go bananas—as I said earlier.

In the end, you don't take it away, and so it's an idle threat. In Michigan, the administrative cost is $170 million—you pay $85 million and we pay $85 million. If you were to see a State whose performance got worse, you would reduce your participation from 50 percent in administration to 40 percent.

I have to go to my senate and house appropriations committees and say that I need an extra $10 million because my agency isn't able to function effectively.

I could pass that on as a message, and I think there would be some changes.

On the other hand, if I'm able to cut my ineligible rate by another 50 percent in the next 2 years and as a result of that you were to give me a 60-percent match for administration, then I would pass that on so that counties that were overburdened could hire more workers and be more effective. That's what I'm suggesting as an incentive.

I think it would reduce the war between the States and the Feds. I think it would enable us to, in a sense, stimulate improved productivity. I think it would enable us to substantially help our local offices, and it would make a difference.

What happens now is that we just have an argument—a dialog—and it never really gets finished.

In the quality control for medicaid recently, the law that Congress passed said that if the State did not review every nursing home placement in a given period of time, you would take away one-third of the Federal match for one quarter.

In Michigan, we have about 450 nursing homes. Somehow, public health, which administers this program by us, missed 14; and those 14 were done within 3 weeks after the terminal date.

So logic would suggest you take away fourteen four-hundred-fiftieths of your funds. What you are proposing to do is to take away 33⅓. That would have meant, in effect, we would have not been able to pay the nursing homes.

So the result was that Congress passed a law that delayed those sanctions for another 3 months.

HEW is coming up with the bill.

You can't impose sanctions that impact on clients, because politics will not allow it. You can impose sanctions, coupled with incentives, to impact on administration; and then you will hold State and local administrators, as well as HEW, much more responsible and accountable.

Dr. **Goldberg**. That sounds like an eminently sensible suggestion—to direct the sanctions to administrative costs and their reimbursement, rather than to the actual benefit payments.

As you said earlier, in the context of the credibility of the welfare system, if it is the folk wisdom or perception that sanctions aren't going to be applied, it becomes very difficult to prevent fraud or program abuse on the part of some recipients. Under those circumstances, the sanctions are meaningless.

It certainly makes a lot of sense to relate sanctions to administrative practices that are actually possible and that can serve as an incentive.

You also, very kindly, refrained from mentioning that at the same time the Federal Government was setting a target for ineligibility in AFDC, with the threat of penalizing those States which did not meet the target, the Federal Government itself was running equally high error rates in the SSI program.

I imagine you purposely avoided making mention of that.

Dr. **Dempsey**. The pot shouldn't call the kettle anything I don't think.

Dr. **Goldberg**. Let me play the devil's advocate for a moment here.

I believe you testified earlier that Michigan reduced its AFDC error rate from 8.5 percent to 4.2 percent. It virtually sliced the error rate in half under threat of sanctions. Perhaps I'm reading into it that the threat of sanctions caused that reduction.

However, would Michigan in all likelihood have reduced its error rate by 50 percent in the absence of the threat of losing several million dollars of Federal funds?

Dr. **Dempsey**. Yes. Because we knew that that sanction would never be taken, and I'm confident it will never be taken.

We also knew that if they announced they were going to try to take $65 million, it would be a major embarrassment.

The way we reduced the error rate, very frankly, is to do what Chairman Fountain, or you, referred to earlier; that is, essentially, to use automation more creatively.

We have a CIS system we call it in Michigan. It's a client information system. We are now completing some more changes to it, but right now we open cases by the computer, we cross-match, we pay, we adjust, we change, and so on.

We are trying to relieve workers of every possible manual task, because a machine can do it better than a worker. And that's the reason that our error rate is going down—that plus some error-prone profiles that we have looked at and tried to concentrate our effort on. Plus the fact that we are decentralizing in Wayne County.

So there is a host of reasons, but it was not the fear of sanctions; it was the fact that we knew we had to do a better job.

Dr. **Goldberg**. I appreciate that you're not in a position to speak for other States, but just hazarding an opinion, do you think the threat of sanctions may have been a motivating factor in bringing about error rate reductions in some other States?

Dr. **Dempszy**. I think the threat of sanctions probably had some impact. But frankly, I think a much bigger impact came from the quality control process itself.

Until 1972 and 1973, we had no real measure of how we were doing. One of the problems I would have to call your attention to particularly is that we're still measuring States against that base period—I think it was from April to September in 1973.

Since September 1973 we have substantially improved the quality control process. Since we are doing a better job in quality control, you would expect that we would find more errors. The pattern nationally has been fewer errors, even though we know far more about how to describe them and detect them. I think that does indicate a substantial commitment on the part of State and local administrators to improve performance.

I think a second major factor is responsible for improved performance; that is, what I would call basically a stabilization of the caseload.

We had one year in Michigan—I think it was 1969 or 1970—when our caseload almost doubled. To go from 60,000 families to 120,000 families on AFDC in 12 months is a horrendous task.

The caseload in Michigan has been stable. When I took over in February 1975, we had 208,000 families on AFDC. We now have 199,000, so it has dropped 9,000. That means that that constant pressure isn't there, and it enables us to do things more systematically.

For example, we had a case recently of a small company in a semirural county that went on strike; suddenly there were 600 food stamp applicants barraging the county. The first consequence was a substantial increase in the error rate. And when the strike was over, the error rate went right back down.

So the stability of the caseload, I think, has contributed in itself and that's been pretty general throughout the country in the last few years.

Dr. **Goldberg.** Dr. Ginsberg, you state that variations in AFDC payments among the States are closely related to local and State politics, rather than to the economic strength of States or the need of families. Could you expand a little on that?

I was under the impression that the lowest payments were generally found in those States with the lowest per capita income—that there was a fairly reasonable correlation between State per capita income and the level of payments.

Dr. **Ginsberg.** I think there probably is a reasonable correlation. I am always struck by the example of Texas, which I feel fairly comfortable in talking about since I'm a native of that State, which has payments of something like $116 a month maximum for a family of four or more. I don't think that correlates very well with the income levels or the per capita income in the State of Texas. It must be better off than West Virginia, and I think statistically they are. We are better than double that in West Virginia.

I think that State governments really are closer to the people and the pressures on them are much stronger than they are at the Federal level.

When our Governor or members of our legislature have to talk to constituents, there are only three or four issues they can really talk about—education, roads, and welfare.

When Members of the U.S. House of Representatives or the Senate talk to their constituents, there is a whole array of things. They can always make people happy on some things, even though they may make them unhappy on others.

The options are so much more limited at the State level. I think the pressure there is to do what the public wants, and that works for the benefit of welfare in some ways but to the detriment of welfare programs in other ways.

I don't see that the choices are rational, although I'm sure that State expenditures and State taxation are correlated with State economic strength.

Mr. JORNLIN. It seems to me that this program is a creature of the political process at any level of government. Therefore, I would suggest that it should be subject to the whims of government and legislatures at any level.

I think if you will study the history of this program from 1935, you will note that it has changed back and forth. I know we've heard the Nixon administration talk about New Federalism. I gave a talk once on federalism at a national meeting and did some research. I discovered it wasn't new at all. It was just a term they had thought up at the moment.

But I think you should expect that at the local, State, and Federal level, this program should be subject to political changes.

Dr. DEMPSEY. When I first got out of the service and started college in 1947, I took a basic course in American Government. There was a textbook which I'm sure you're familiar with by Ogg and Ray. It was the classic.

Chapter 5, I suspect, was the chapter on federalism.

It said: Federalism is a unique creation of the American genius. Federalism allows each of the States to be laboratories for democracy.

That has always stuck in my mind as a great thing.

Most of the changes we have seen in this country originated at the local or State level—whether you talk about the direct primary, the regulation of railroads, or what have you. As more and more we get into a federal system, we find that there is no experimentation and there is no local initiative allowed. There is more and more centralization and more and more standardization and more and more complication.

There are days I would almost like to suggest that Congress pass a law which sets some basic minimums and then say that every State is free to do what they want, subject to Federal audits and Federal review and quality control and so on. But relieve us of some of these silly restrictions.

I didn't mean to indicate earlier that I was hostile to New York City. But so much of what we do in this country in welfare legislation is designed, either because of the problem in New York City or a problem in the State of California or a problem in the Virgin Islands, or what have you.

I just don't think that human beings have the capacity to make a single decision, in any central area—whether it's the United Nations in New York or Congress or HEW—that will apply in all circumstances.

Therefore, what I think you should do, in effect, is set broad parameters and allow States to experiment within themselves and then we will exchange information, and HEW can exchange.

When we hear about the things that work well in West Virginia, we try to do them in Michigan.

The problem is West Virginia, Michigan, and California have relatively little freedom to try things. When we ask HEW's permission to do something, they say that if we're not going to do it statewide, the only way we can do it is through 1115. So we prepare an application, and it takes months. We finally get it in, and they turn it down—on the grounds that it isn't truly experimental and it won't demonstrate anything, and so on. That's a mechanical monster.

So I do think that we have to have more flexibility and more options at State and local levels and then hold us accountable.

Dr. Ginsberg. One thing on the differential between States: The system, of course, allows for a higher Federal subsidy for lower income States. I don't know what your matching is—probably 50 percent——

Dr. Dempsey. It is 50–50.

Dr. Ginsberg. In West Virginia, it is 70 percent Federal and 30 percent State. I think it goes up to about 85 percent. So that should reduce many of the inequities between ability to spend and level of payments.

Dr. Goldberg. Is it your feeling, Dr. Dempsey—you didn't express this; I am trying to delve a bit—that HEW is more timid than it needs to be in allowing discretion to the States for experimentation? Or, on the other hand, do you think the Federal legislation prohibits HEW from permitting State experimentation in some of these areas?

Dr. Dempsey. I think at times Federal legislation makes it a little difficult. One thing I've discovered as the State administrator is that if I want to do something with my local units, I can usually figure out a way.

I think HEW has been too timid, yes. I think at times they don't want experimentation because it doesn't agree with the social philosophy of particular people. And there I'm not talking about the Secretary or the Under Secretary. I'm talking about the career people.

Much of what has happened in this country is because, in effect, when Congress delegates to an agency the obligation to write the administrative rules, those rules—as I said earlier—in the end are written by people who are sincerely convinced they're doing the right thing. And they're going to make certain that States do not abuse them and don't do this or that.

I think that there should be much more of an exercise of the rule of waiver to allow States to try things.

We're going into a massive welfare reform discussion. What we're going to be talking about is trying to build a system that will fit 50 States, 3 territories, and the District of Columbia. It just won't work.

If you had allowed the States to experiment—and by "you" I mean the Federal Government, or maybe the system collectively—I think we would have six or eight different models, and we'd know which was best and which was not so good, and so on.

But to reform the system totally is such a massive consequence; it affects 33 million people initially and 200 million people very quickly and, therefore, it is going to be very difficult to change.

So, yes, HEW is too timid in my judgment.

Dr. Goldberg. I want to thank you gentlemen for your very candid testimony. That's all the questions I have, Mr. Chairman.

Mr. Aspin [presiding]. Mr. Duncan, do you have any further questions of the witnesses?

Mr. Duncan. No, Mr. Chairman.

Mr. Aspin. Is there anything further anyone would like to say?

Dr. Ginsberg. I just want to say that, perhaps because I am newer, I am less negative about the Department of Health, Education, and Welfare than my colleague from Michigan.

Dr. Dempsey. I would hasten to add that my negativism is not in the last 6 months; it's the 2½ years that I've been director. So it is not directed against any administration.

Mr. Aspin. Any other comments?

[No response.]

Mr. Aspin. Thank you for coming. It has been a very interesting morning.

We are going to resume these hearings in September, but for now we will recess the hearing subject to the call of the Chair.

Thank you all.

[Additional material submitted for the hearings follow:]

TESTIMONY FOR THE
INTERGOVERNMENTAL RELATIONS AND HUMAN RESOURCES SUBCOMMITTEE
OF THE COMMITTEE ON GOVERNMENTAL OPERATIONS

Steven A. Minter, President
American Public Welfare Association

October 7, 1977

Statement on Welfare Reform

It is gratifying that the Subcommittee has decided to examine the administrative details of the Aid to Families with Dependent Children Program. The Congress and the public devote most of their energies, on the subject of welfare reform, to questions of intent and abuse, while for those who operate the benefits system, administrative issues are equally, perhaps more, important.

Whether or not we can ever achieve a truly simplified welfare system that accommodates the goals of conflicting constituencies and retains the flexibility to best serve people in need remains to be seen. However, certainly there are improvements which can be made in the existing AFDC program.

Standardization. The sea of paperwork which currently overwhelms both welfare workers and welfare clients can be reduced. Calculating individual deductions for items like work expenses and shelter is not only time consuming but allows for a wide margin of error in determining eligibility and establishing grant levels. These errors contribute significantly to undermining confidence in welfare programs, among the public and the Congress.

The author is a Program Officer at The Cleveland Foundation. The views presented here are his own and represent experiences as former Director of the Cuyahoga County Welfare Department in Cleveland, Ohio and Commissioner of Welfare at the Massachusetts Department of Public Welfare.

Specifically, I would recommend:

1. standardizing work expense deductions in the AFDC program
2. standardizing the definitions of income and assets in related programs, e.g., AFDC, Food Stamps, housing subsidy programs
3. where possible, devising a single application form for use in determining eligibility for Federal programs. The Joint Economic Committee's study of welfare programs documents the folly and inefficiency of having numerous agencies gather the same data on poor families. Within the limitations of privacy law and regulations, it seems clear that improved data processing systems invite a consolidated application form.

Individual Needs. As the Commissioner of Public Welfare in the Commonwealth of Massachusetts, I had considerable experience in various approaches to meeting the individual needs of families. When I began as welfare commissioner, we had an individualized eligibility determination that included special diets, telephone allowances. In other words, the full range of special allowances plus a hardship fund to deal with emergencies. In succeeding years we instituted a quarterly flat grant, which was in addition to the monthly AFDC check and designed specifically to meet special and emergency needs, including extra heating costs, winter clothing, etc. Ultimately, Massachusetts converted to a consolidated grant system to further eliminate individualized treatment and make the program more equitable and efficient.

We found with AFDC in Massachusetts - and the same experience occurred with the SSI program - that regardless of how the basic payment system is streamlined, there must be flexibility to meet the non-recurring emergency needs of recipients, ranging from the provision of furniture in an emergency to the payment of utility arrearages, in some cases.

Work Programs. The recent history of work programs in relation to AFDC recipients has been one of failure. This failure is due in part to the structure of the AFDC program and in part to the poor administration of the Work Incentive program (WIN). There is not sufficient work incentive in allowing AFDC recipients to keep little more than 33 cents of every dollar they earn. The Carter welfare reform proposal goes a long way toward improving work incentives, not only by allowing recipients to keep 50 cents of every dollar but by adding tax credits which make employment continue to be more advantageous than not working. (Usually, there is a fairly low wage break-even point, as in the current program, at which all benefits are lost due to employment status, and only modest tax credits are now available.)

As for the work programs themselves, the training has not been well coordinated with jobs available in the labor market, and the link between training and employment has been a weak one. I think Congress and the Federal government would have to admit that work programs for welfare recipients have paid more lip service to the work ethic than they have paid income to AFDC families. They have been directed more at registering people for work than at finding jobs for people who are hard to employ.

Relationship Between HEW and the States. The foundation of the AFDC program has been a partnership between the Federal government and the states. This relationship has at times been as beneficial as it was appropriate. However, in recent years, the balance in the partnership has swung heavily toward the Federal government and needs redefining, in my judgment.

Again, from the perspective of both a local and a state official who was responsible for administering the AFDC program, let me explain to you what it is like a far distance from Washington. The state or local administrator is trying to balance the interests of the Congress, the Federal government, the state legislature and the clients; he or she is expected to budget expert as well as social worker and management whiz.

To accomplish this feat would be difficult enough if the AFDC program remained constant, but the swiftness and the frequency of changes in Federal regulations make it nearly impossible to administer. Continual changes in regulations, which go virtually unnoticed except by the welfare bureaucracy, have several negative outcomes, including:

- Shifting priorities for program administrators. A public welfare department may have a management program underway to increase efficiency in the agency, and be forced to shift gears overnight to accommodate a new HEW program change.
- Line staff morale, which is difficult to sustain in states with high turnover of personnel, is further eroded by constantly having to adjust to new directives and forms.
- Staff training and performance declines, and errors increase, when changes in regulations cannot be integrated into the system within tight time frames.

Another facet of the Federal-state relationship is the manner of dealing with the states' compliance with Federal regulations. I doubt that any state chooses deliberately not to comply with Federal rules, and it seems to me that in a partnership between HEW and the states, there is room for discussion and agreement on how a state's program should be operated. However, to judge states out of compliance, and to threaten withholding of Federal reimbursements on a regular basis, which is a practice that became all too common during the early and mid 1970's, renders the compliance system meaningless. Heavy-handed treatment by the Federal government also diminishes the effectiveness of program administration as it increases the suspicion that the states and Federal government are working at cross-purposes.

There are many functions the Federal government performs well, and I hope the Subcommittee will note them as well as the areas of criticism.

The Quality Control program is an example. While I, as a state administrator, helped fight the fiscal sanctions portion of the Quality Control regulations, I think overall the program to eliminate errors compelled the states and localities to evaluate and improve the way they managed the AFDC program. The overall improvement in program administration, as documented in the reduced error rates, is evidence of the Quality Control program's value. I would also like to comment on the role of the regional office in the Department of Health, Education, and Welfare. There have been indications that the new Administration intends to diminish the role of regional offices, and I would support that posture. Since the regional offices have little or no role in determining policy, their major function is monitoring program administration and defining policy.

On matters of great consequence to the individual state - either policy fiscal or administrative issues - the states negotiate directly with Washington. Therefore, it seems that the considerable Federal apparatus at the regional level should be examined to determine its worth or necessity.

Reform. The Congress is now beginning consideration of President Carter's welfare reform proposal. Even if the package were to be approved in its original form, and on schedule, the implementation date is 1981. Three years is a long time in the life of the AFDC program, and I would hope this subcommittee could work to implement changes in AFDC irrespective of the debate on large-scale welfare reform.

Some of the changes that the American Public Welfare Association would support are:

1. mandating an AFDC-UP program in all the states
2. limiting the benefit reduction rate to no more than 50%
3. providing Federal financial participation in emergency programs

4. standardizing definitions among programs
5. standardizing deductions for work expenses
6. mandating consolidated grants in all states
7. revising Federal reimbursement formulas to correct inequities among the states.

Finally, I would recommend that the Subcommittee carefully examine the Better Jobs and Income Plan, especially the administrative aspects of the proposal.

The study of the AFDC program which the Library of Congress conducted for this Subcommittee detailed the administrative complexity and problems inherent in the current system. The administrative implications of welfare reform should be explored with equal thoroughness.

ljj

[Whereupon, at 12:30 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

ADMINISTRATION OF THE AFDC PROGRAM

TUESDAY, SEPTEMBER 27, 1977

House of Representatives,
Intergovernmental Relations
and Human Resources Subcommittee
of the Committee on Government Operations,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:45 a.m., in room 2247, Rayburn House Office Building, Hon. L. H. Fountain (chairman of the subcommittee) presiding.

Present: Representatives L. H. Fountain, Don Fuqua, Elliott H. Levitas, Michael T. Blouin, John W. Wydler, and Clarence J. Brown.

Also present: Delphis C. Goldberg, professional staff member; Pamela H. Welch, secretary; and John Duncan, minority professional staff, Committee on Government Operations.

Mr. Fountain. The subcommittee will come to order. Let the record show that a quorum is present.

This morning the subcommittee continues the oversight hearings which were commenced in July on the aid to families with dependent children program.

Following our initial set of hearings, the President submitted his welfare reform proposals to the Congress, which he described as a program for "better jobs and income."

In general, the President's plan would replace AFDC, SSI, food stamps, and State general assistance with a cash payment for those deemed unable to work, including mothers with children under age 7, and for "employable" persons if no job is available for them.

At the heart of that plan are work requirements for those who "can and should" work, a bonus through an increase in the earned income tax credit for workers who have inadequate earnings, and work incentives for all recipients deemed employable.

Our hearing today is very pertinent and central to the President's plan, because we have asked our expert witnesses to focus particularly on the question of whether and how the AFDC population can be moved into employment and the feasibility of creating jobs targeted for low-income people.

In dealing with this basic question, we have also asked them to take account of previous Government efforts to provide employment for welfare recipients through such programs as WIN—the work incentive program—and CETA—the Comprehensive Employment and Training Act.

I am very pleased to welcome all three of our witnesses, all of whom have special knowledge in this area.

We will hear first from Dr. Arnold H. Packer, the Assistant Secretary of Labor for Policy, Evaluation, and Research. A more detailed curriculum vitae, I assume, will be a part of the record.

He will be followed by Mr. David Hilburn, Deputy Director of the Massachusetts Division of Employment Security, representing the Interstate Conference of Employment Security Agencies, Inc.

The subcommittee will then take testimony from Mr. Robert C. Smith, Director of Planning and Program Operations for the Manpower Development Corp., Inc., in Chapel Hill, N.C.

I might add, that is the seat of my alma mater—the University of North Carolina.

I understand that the private, nonprofit corporation with which Mr. Smith is associated has earned a national reputation for the quality of its research and does extensive work for the Department of Labor.

I understand that each of you has been asked to confine your presentations to 15 minutes, with the understanding that your entire statements will be included in the hearing record, regardless of length.

The subcommittee will withhold questions until all of you have given your statements, at which time we will question you as a panel.

Dr. Packer, will you lead off please?

STATEMENT OF DR. ARNOLD H. PACKER, ASSISTANT SECRETARY FOR POLICY, EVALUATION AND RESEARCH, U.S. DEPARTMENT OF LABOR; ACCOMPANIED BY MERWIN HANS, DIRECTOR, OFFICE OF WORK INCENTIVE PROGRAMS; ROBERT JONES, DIRECTOR, OFFICE OF COMMUNITY EMPLOYMENT PROGRAMS; AND DAVID WILLIAMS, DEPUTY ADMINISTRATOR, U.S. EMPLOYMENT SERVICE

Dr. PACKER. Thank you, Mr. Chairman.

I will try to keep within your 15-minute constraint.

I am very pleased to appear before you today to discuss the lessons learned from past and current Labor Department programs for low-income workers and to describe how we have tried to translate these lessons into policy through the President's welfare reform proposal.

Assisting me today will be Merwin Hans who is the Director of the Work Incentive Programs; Bob Jones who is the Director of the Office of Community Employment Programs; and Dave Williams who is Deputy Administrator of the U.S. Employment Service.

Mr. FOUNTAIN. We are delighted to have you all here.

Dr. PACKER. We welcome the committee's review of our experience with employment and training programs for welfare recipients and other low-income workers. We do not deny that problems in these programs have existed and many remain to be corrected. Although criticism, in itself, will not guarantee any changes for the better, it is an essential starting point. Covering up our problems will not solve them.

I hope to learn much from this morning's dialog. We in the administration too often rely on summary data and official reports for our perceptions of how programs operate in the real world. Members of Congress are often able to bring fresh insights to the analysis of programs because of direct exposure to the problems their constituents face. The staff of this subcommittee has already demonstrated its knowledge of the subject by preparing and giving me a thoughtful set of questions, and I shall try to answer these and any other questions after my prepared statement.

The Federal commitment to employment and training programs has grown rapidly in the last 15 years. As recently as 1974, expenditures were only $2.2 billion. In fiscal 1978, they will be $10.9 billion.

The President's commitment to welfare reform and other employment and training programs almost insures that expenditures for these functions will continue to grow. We are at the threshold of an expansion which we believe can substantially increase employment opportunities for low-income families. The President has proposed a program which attempts to assure that all families with children will have access to a job. It is vital that we make this program work. To do so will require that we improve our employment and training delivery system.

In particular, we need a good working relationship between the Employment Service (ES) and the prime sponsors under the Comprehensive Employment and Training Act (CETA).

We are making progress in the current CETA title VI buildup. In this effort, the Employment Service identifies eligible participants and refers them to the CETA prime sponsors. This permits the prime sponsors to concentrate on their main tasks which are to solicit job creation proposals, to choose the best proposals, and to monitor the projects employing CETA workers.

The success of this relationship is best witnessed by the fact that the current CETA stimulus PSE buildup is well ahead of schedule.

Enrollment in titles II and VI of CETA reached over 500,000 slots in September—an increase of over 200,000 since the spring of 1977.

Mr. Chairman, I'd like to point out that that's a 35 percent more rapid buildup than we anticipated when the plans were initially drawn.

In spite of the rapid buildup, it is clear that we are just beginning to explore the kinds of useful services that can be produced through a PSE program. It is this experience which gives us confidence that the task of creating the 1.4 million useful jobs anticipated under the administration's welfare program is well within the capabilities of our employment and training delivery system.

We must also continue to improve the relationship between ES and employers. The Department has held discussions with employer organizations such as the National Alliance of Businessmen, the Business Roundtable, and the U.S. Chamber of Commerce.

ES is utilizing State and local employer committees to encourage all companies to make more extensive use of the Employment Service. A successful ES is needed if our employment and training programs are to create a bridge between welfare and economic self-sufficiency in the private sector.

We have learned it is important to offer sensible incentives to program administrators. Past directives and funding procedures of the ES have emphasized the number of ES placements. This criterion may have encouraged the ES administrators to stimulate large numbers of placements at the expense of more intensive services that might have led to placements of longer duration or higher quality to higher wage jobs.

But if an employment strategy is to work, past experience also tells us that we must think carefully about building a structure which incorporates the incentives and opportunities necessary to insure success. A system which relies solely upon "work requirements" to force participants to work in the face of severe financial disincentives to do so is doomed to failure. Without available jobs and financial incentives to work, there is little hope of administering a work requirement effectively.

We might as well face the fact that recipients can easily find ways of avoiding sanctions for refusing jobs. In today's labor market or even in one with a lower unemployment rate, one can always claim that no job offer has been made. However, this claim cannot be made if a PSE slot is available and it is not likely to be made if the job offered provides a real opportunity for income improvement.

Experience with food stamp and AFDC–UF programs indicates that many deserving families do not apply for benefits to which they are entitled. Programs in which recipients have to work off their welfare benefits may arouse understandable resentment among recipients and may be designed as a sanction against recipients instead of a way of utilizing unemployed workers.

The President's program offers jobs that markedly increase the incomes of workers over what they would be if the family eliminated that problem.

We also note that our experience with food stamp and AFDC programs indicates that many deserving families do not apply for the benefits to which they are entitled.

In order to deal with that problem, the jobs portion of the welfare program is not income- or asset-tested. Workers do not have to proclaim their families are needy or poor for them to attain the jobs under this program, nor do they have to deplete all savings—thus increasing their long-term dependency—in order to gain assistance in times of temporary hardship.

We believe that providing job opportunities is the best Government vehicle for encouraging family stability. The number of one-parent families with children has continued to rise in the 1970's, even after the explosive growth in the late 1960's. In 1975, more than half of all poor children, and 70 percent of all poor black children, lived in such one-parent families. We used to believe that extending cash benefits to two-parent families would increase family stability since fathers would no longer have to leave their families to qualify them for Government benefits. But, experience with the AFDC–UF program and evidence from recent income-maintenance experiments shows that simply extending cash assistance to intact families will probably not help. It is not only lack of income but lack of employment that creates the tensions that lead to frequent family splitting. It is for this reason that improving access to a job for the family's primary earner can have favorable effects on family structure. Keeping families together offers the best hope for eliminating poverty.

There is a new study out of 5,000 American families. It finds that family structure changes are the most important determinant of whether the family gets into or out of poverty. So family splitting is one of the problems that we're trying to address with the welfare reform.

In another book, "All Our Children," by Kenneth Keniston and the Carnegie Council on Children, the authors reach similar conclusions, and I quote:

> If our society is determined that the family is to remain the basic institution for rearing children, and if children are to have a chance to develop and use their potential, then it is necessary for the economic status of American families to be more secure . . . therefore, we believe that a family policy in the United States must provide all parents with the opportunity to choose employment at decent wages . . .

The authors go on to recommend a combined program of jobs for heads of households and income supports, a program similar in many respects to that proposed by the administration, although it is to be understood that the administration is not proposing a program of guaranteed jobs.

Now I would like to briefly describe the President's welfare reform proposal, with particular emphasis on the job component. In designing this program, we have relied heavily on the lessons learned and experience gained from operating related employment programs.

The administration's welfare reform proposal has two basic components. Title I of H.R. 9030 proposes a comprehensive national program of cash assistance for all low-income persons. The cash assistance component has been designed to assure a more adequate and uniform system of income maintenance for those who are unable to support themselves by virtue of age, disability, or family circumstances. Cash assistance is also provided to families with employable members as well as single persons and childless couples. However, for these latter groups stronger financial incentives for maintaining and increasing work effort are provided together with a requirement that such persons seek and accept employment.

The cash assistance provisions of the welfare reform proposal thus establish an "income floor" for all Americans unable to provide for the basic needs of their families and themselves. The employment opportunities program, for which the Department of Labor will be responsible, moves one step beyond this to insure that long-run reliance on this cash assistance will be minimized in three ways: First, by developing and encouraging regular economy employment among low-income persons; second, by providing services to improve the employment potential of such persons; and last, by establishing a "job floor" for families with children through the creation of almost 1½ million subsidized job and training positions.

The job opportunities program represents a major commitment by this administration to attempt to insure that families will have both the opportunity for self-support through full-time employment and the skills required to hold useful jobs at adequate wages.

To achieve this objective, a coordinated program of employment, training, and income supplements will be provided. The major focus of this program will be to encourage and assist employable members of low-income families and other low-income persons in securing adequate paying jobs in the regular economy. However, in the case of families with children, if no regular economy job paying at least the minimum wage can be found, the Government will undertake to provide one.

Under normal economic conditions, we will attempt to assure a job or training opportunity, paying at least the minimum wage, to each low-income family with children whose sole or primary earner is unable to secure employment in the regular economy. We estimate that, given normal economic conditions, demand will exist for about 1.4 million jobs and training slots in 1981, employing some 2.5 million workers.

I would like to stress that this is not a "work for your welfare" program. Program participants need not be on cash assistance to participate. Conversely, participation in the job program is not a condition of receipt of cash assistance. However, turning down a job without good cause will result in reduced cash benefits for an expected-to-work family.

I would also emphasize that while single-parent family heads with small children are not required to work in order to receive full cash assistance, they also may apply for and receive job and training benefits on an equal basis.

To assure that program benefits reach those most in need, we have relied on the following simple devices to make the job program self-rationing:

First, eligibility for the subsidized jobs program will be limited to adult members of families with children.

Second, only one member of such a family will be provided a subsidized job or training opportunity and that opportunity may only be taken by either the sole parent or, if there are two or more adults, the "principal earner."

The principal earner is the parent who has either worked the most hours or had the highest earnings in the last 6 months. If the normal principal earner has become ill or disabled, the other parent will qualify. If neither has recent work experience, either may apply. This provision assures that subsidized jobs are restricted to those families whose job opportunities are so limited that no adult member has been able to obtain steady employment in the regular economy at even the minimum wage level provided by the subsidized job.

The wage rates paid on these jobs would be at or just above the minimum wage. Clearly, an individual who can obtain a better-paying job will do so. This self-rationing feature also meets another requirement. The wages for these subsidized jobs must not compete with jobs available in the private sector.

As a result, the wages for these jobs will be set at the Federal or State minimum wage rate—whichever is higher—with two exceptions:

In order to maintain the balance between cash assistance and subsidized wages, proportional wage supplements of up to 10 percent of the minimum wage must be paid by those States which also supplement Federal cash assistance for families not expected to work.

It is expected that 39 States will supplement the wage—37 of them at the maximum 10-percent rate. In addition, premiums of up to 25 percent of the minimum wage may be paid to a limited number of work leaders on projects.

This limitation on wages is essential to encourage participants to first seek employment in the regular economy and to discourage people from leaving low-wage regular jobs to take subsidized jobs. Estimates indicate that if the wage is raised, the number of applicants for the job might increase by as much as twice the rate of increase of the wage. This sort of response could not only lead to greatly increased program costs but would ultimately require abandoning the concept of attempting to provide jobs to all eligible persons who cannot find better jobs. Instead, a rationing device would need to be introduced which would inevitably result in the exclusion of many of those most in need.

Several other features of the employment opportunities program have been carefully designed to avoid disruptive effects on the regular economy.

A 5-week intensive job search period will be required before an individual can be placed in a subsidized job. After holding a subsidized job for 52 weeks, an individual will be required to undertake another 5-week period of intensive job search.

The jobs will be in useful public services which are not normally performed by regular public or private sector workers.

Every effort will be made to emphasize job activities which help participants acquire useful skills and encourage and assist them to seek employment in the regular economy. We expect that training activities will be a regular component of most subsidized job opportunities.

Flexible hours and part-time work opportunities will be provided in order to accommodate the needs of single parents with young and school-age children.

An expanded earned income tax credit, administered routinely through the Internal Revenue Service, will supplement the regular earnings of families whose income is relatively low.

These benefits have been structured in a way to provide a positive—rather than a negative—incentive for increased work effort and to make regular economy employment more attractive than subsidized work.

Such a program requires a flexible and innovative organizational structure. The exact design of the delivery systems will require a considerable period of interaction with State and local officials. Nonetheless, certain broad outlines can be sketched.

First, program operation will be local. Local labor markets differ, local clientele differ, and a substantial investment has already been made in our existing local employment and training system. Under this approach, we expect that the local CETA prime sponsors will make arrangements for intake, initial intensive job search, and other labor exchange functions with the Employment Service. In some circumstances, comparable arrangements may be made with other agencies when necessary. The local sponsors will contract with public agencies, community-based organizations, and other nonprofit groups to provide many of the subsidized job and training slots.

This brief description of the program has necessarily omitted many of the important details. However, I am sure that we will cover these in your questions.

I will be glad to answer any of your questions after the panel has made its presentation.

Mr. FOUNTAIN. Thank you. That was a very informative statement.

Mr. Hilburn?

STATEMENT OF DAVID HILBURN, DEPUTY DIRECTOR, MASSACHUSETTS DIVISION OF EMPLOYMENT SECURITY, REPRESENTING THE INTERSTATE CONFERENCE OF EMPLOYMENT SECURITY AGENCIES, INC.; ACCOMPANIED BY ROBERT C. GOODWIN, ASSOCIATE VICE PRESIDENT, INTERSTATE CONFERENCE OF EMPLOYMENT SECURITY AGENCIES, INC.

Mr. **Hilburn**. Thank you, Mr. Chairman.

Accompanying me today is Mr. Robert Goodwin of the Interstate Conference of Employment Security Agencies.

I am standing in for Mr. Crosier, who is director of the Massachusetts Division of Employment Security and also president of the Interstate Conference of Employment Security Agencies.

We are happy to appear before this subcommittee to discuss the topic of work and welfare; and, in particular, the work incentive, or WIN, program whose existence must be the best-kept secret in this town.

I say that because despite the fact that the WIN program is very successful, it continues to be funded at far less than its potential.

In the first 6 months of fiscal year 1977, welfare savings from WIN were estimated at $300 million, compared to a total annual program budget of only $365 million. Yet, in spite of its comparative effectiveness against other manpower programs and its demonstrated track record in saving welfare funds, WIN will be held to the fiscal year 1977 funding level for the next fiscal year.

As a result, WIN will be unable to expand its services to such important target groups as teenage mothers, for whom early intervention would make a major lifetime difference.

In the first 6 months of fiscal 1977, 126,000 welfare recipients were placed in employment, which was verified at the end of 30 days, through the WIN program. This is an increase of 16 percent over the prior year's performance and a 38-percent improvement over fiscal 1975 results. The overall performance of WIN compares very favorably with similar programs administered through the CETA system.

WIN retention rates are also good with more than 75 percent of the clients who complete the 30-day verification period still working 6 months thereafter.

We are proud of these results which have been achieved with a client group which is quite disadvantaged in terms of its percentage of school dropouts, its minority group members, and its participants with poor recent work histories and the needs for additional social services—in particular, day care.

MASSACHUSETTS WIN

I'd like to discuss briefly with you our successes to date in operating the WIN program in Massachusetts.

The Massachusetts WIN program has an employment and training staff of only 305 people operating out of 37 WIN offices throughout the Commonwealth, to serve a welfare registrant pool averaging 74,000 at any single time—but totaling over 100,000 registrants during 1 year.

In the first three quarters of this fiscal year, these 305 people placed over 7,000 recipients in permanent, private sector, unsubsidized employment at an average cost of $680 per client—one of the lowest WIN costs in the country.

The wages generated by these recipients going to work will exceed $32 million over the next 1 year. More importantly, the $13 million in welfare savings generated during the first 9 months alone is more than double the WIN expenditures of $6.3 million.

It is important to look at the characteristics of the WIN program we operate in Massachusetts.

First, our primary focus is on direct placement into the private sector of job-ready recipients. These private sector jobs offer a greater variety of opportunities, last longer, and involve more transferability of skills than do subsidized jobs in the public sector—so-called public service employment.

Second, we earmark a large share of our WIN resources for WIN on-the-job training contracts in the private sector. We use WIN/OJT as a marketing device and have found that it is an excellent means of opening the door to private sector employers.

In fact, we meet the one-third legislative WIN/OJT/PSE spending requirement entirely through the OJT contracts.

Third, we use other manpower programs wherever possible, especially the expanded CETA public service employment opportunity.

Since the President's announcement of the economic stimulus program last spring, over 9,000 recipients in Massachusetts have been referred to CETA jobs—2,000 of whom have been hired.

Finally, we have stressed service to unemployment fathers as a high priority in our State. Last February, we began an intensive effort to find work for male heads of household. By the end of June, 3,300 fathers had taken full-time jobs—most of them in the private sector.

IMPROVEMENTS TO WIN

Although we've been quite successful in helping people find work, we could have even better results if the following changes were made in the WIN authorizing legislation.

First, if more mothers are to go to work, more effort must be given to locating and expanding the supply of day care. This is our single largest obstacle in working with welfare mothers.

Authority should be granted to use WIN funds for remodeling and equipment costs where needed to establish day care centers.

In addition, since it is quite difficult to find suitable child care after school until a mother gets home, public and private schools should be given governmental financial inducements to operate after-school programs.

Priority in locating day care slots must be given to working mothers in those areas where the supply of day care is limited. That is not now being done.

Second, if more fathers are to go to work, some type of financial supplement and medical coverage must be provided.

Because they lose all welfare benefits after 100 hours of work in a month, unemployed fathers have little incentive to take a job—unless they can qualify for something at a very high wage.

Loss of medicaid benefits also deters unemployed fathers from taking full-time jobs and leaving the welfare rolls.

In short, the system encourages unemployed fathers, even more than mothers, to remain on welfare—rather than go to work.

Third, the WIN adjudication system needs to be simplified. The time it takes to remove a recipient who refuses a suitable job from the welfare rolls makes the mandatory provisions of WIN virtually unenforceable.

The 60-day counseling period, presently coming after a formal hearing, should be placed before it and shortened so that the recipient knows that the result of that hearing is binding.

Finally, the 90-day disqualification provision from welfare benefits for those who have refused appropriate jobs is too short to be effective.

Fourth, more funds are needed for short-term classroom training, particularly in the clerical and other fields which are better taught in the classroom than on the job.

We cannot now meet the demand by recpients for this training, nor the demand by employers for trained workers.

In addition, we cannot provide extensive services to non-English-speaking recipients, such as recent residents arriving from Puerto Rico, because of their generally greater lack of skills and the lack of funds for English language training.

Fifth, and exceedingly important, we need to clarify WIN legislative authority to run mandatory work experience programs like the one Governor Dukakis is proposing in Massachusetts.

Many recipients in our files are being rejected for both private sector and CETA public service jobs, because they lack a recent work history.

In many cases, these people need only a short-term successful work experience to prove to themselves and potential employers that they can maintain a good work record for a period of 6 months or so.

We believe these improvements in WIN should be made now so that the best possible program can be operated between now and 1981, during the intervening period before the implementation of a welfare reform program.

I think that the hard-working, low-wage taxpayers of the Nation would agree with this statement.

THE FOOD STAMP PROGRAM

Your subcommittee raised a number of questions on the food stamp program, and my comments on that food stamp work requirement will be brief.

It is a charade.

In Massachusetts, we have only 14 positions, in total, statewide for this effort. These positions are used just to keep track of the Federal paperwork. Nothing is left for the work test.

On a nationwide basis, only $28 million is allocated to this program.

It seems obvious that the food stamp work test and the WIN work test should be integrated now to save money and confusion, and that the WIN program should be expanded to cover the population receiving food stamps.

The current system of recipients taking pot luck in the regular employment service offices is not as intensive a service as WIN could provide.

In addition, it is not compatible with State employment security efforts to upgrade their regular ES operations.

As a State employment security administrator on the front lines, I have a number of suggestions which I hope the Congress would consider in shaping and enacting the President's welfare reform proposal. We think these suggestions would improve and strengthen that bill.

First, a stronger role for the Governor is necessary to insure that services are effective and to develop a plan for the split between State government and local government of various responsibility.

Attempting to make this division on a uniform basis in all 50 States, ignores very real differences among them in their geography and in their organizational arrangements. This authority to insure program effectiveness for the Governor is particularly important due to the requirement of supplementary State payments.

Second, the proven success of the WIN program and the expertise of the WIN staff should be retained and not tossed out on the scrap heap. It takes several years to build this kind of capability and management system.

It makes no sense to slip backwards for 2 or 3 years while entirely new systems are developed and new staff are recruited and trained.

Third, the very existence of a large number of public service jobs can hinder private sector placement for reasons of status and working conditions.

We experienced great difficulty moving public service employees into private sector jobs.

I am concerned that we may be creating a permanent class of low-wage public service jobholders in lieu of the present situation where most welfare recipients move in and out of the unsubsidized job market on a regular basis.

Greater reliance in welfare reform should be placed on placement in private sector jobs and training for private sector jobs.

Fourth, if we are to encourage recipients to leave a public service job for a private sector job, the 10 percent incentive—the earned income tax credit—should be increased and, if possible, provided on a more timely basis. This problem of lack of incentive will be compounded if the PSE jobs pay more than the minimum wage—since the jobholder's income will then be more adequate.

Fifth, our experience has shown that the most efficient way to do job development for welfare recipients is on a coupled basis with the marketing of OJT contracts as an inducement to private employers. If job development and OJT are separated, neither will be as effective.

Sixth, 5 weeks is far too short a period to determine the availability of appropriate jobs before making PSE jobs available.

Given the dynamics of local area labor markets, at least 13 weeks should be available to find unsubsidized employment. This is roughly comparable to the average duration of unemployment compensation and represents a more realistic time to locate employment.

By making the period as short as 5 weeks, we seem to be again pushing people toward the public sector and away from the private sector.

Seventh, day care capacity building and locator services should be totally integrated with the employment and training effort. As I stated earlier, the lack of day care is the single biggest obstacle to the employment of more numbers of welfare mothers.

We should have learned by now that separate systems don't generally produce good results.

To sum up, Mr. Chairman, the WIN program is working in Massachusetts—working well, but it could work better. We believe that a greater number of recipients could become self-sufficient if the Congress made more resources available and if the Congress made some legislative changes.

In any program such as this, however, a strong, clear commitment is needed from elected officials.

Fortunately, Governor Michael Dukakis in Massachusetts has made finding jobs for welfare recipients a major priority of his administration.

By merging the resources of the Employment Service, the Public Welfare Department, and the CETA programs statewide, a State can run an effective employment and training program for those on public assistance.

Without that coordination and strong leadership at the State level, however, neither WIN nor the new efforts at welfare reform can succeed.

Thank you very much for the opportunity to appear before you today.

Mr. FOUNTAIN. Thank you also for a very informative and forthright statement.

You made mention of the fact that WIN must be the most well-kept secret in Washington. Maybe WIN is like some of our agricultural commodities—I'm thinking of the area from which I come—it needs a press agent.

[Mr. Crosier's prepared statement follows:]

PREPARED STATEMENT OF JOHN D. CROSIER, DIRECTOR, MASSACHUSETTS DIVISION OF EMPLOYMENT SECURITY, AND PRESIDENT, INTERSTATE CONFERENCE OF EMPLOYMENT SECURITY AGENCIES, INC.

Mr. Chairman and members of the Committee, my name is John D. Crosier and I am Director of the Massachusetts Division of Employment Security. I am also President of the Interstate Conference of Employment Security Agencies, Inc.

National WIN Results

I am happy to appear before this Committee to discuss the topic of work and welfare, and in particular, the Work Incentive (WIN) program, whose existence must be the best kept secret in Washington. I say that because despite the fact that the WIN program is successful, it continues to be funded at less than its potential.

In the first six months of fiscal year 1977, welfare savings from WIN were estimated at $300 million, compared to a total FY 1977 program budget of only $365 million. Yet, in spite of its comparative effectiveness against other manpower programs and its demonstrated "track record" in saving welfare funds, WIN will be held to the FY 1977 funding level for FY 1978. As a result, WIN will be unable to expand its services to such important target groups as teen-age mothers, for whom early intervention would make a major lifetime difference.

In the first half of FY 1977, 126,000 welfare recipients were placed in employment (verified at the end of 30 days) through the WIN program. This is an increase of 16% over FY 1976 performance and a 39% improvement over FY 1975 results. The overall performance of WIN compares favorably with the similar programs administered through the CETA system.

WIN retention rates are also good, with more than 75% of clients who complete the 30-day verification period still working six months thereafter. We are proud of these results, which have been achieved with a client group which is quite disadvantaged in terms of its percentage of school dropouts, minority group members, and participants with poor recent work histories and needs for additional social services.

Massachusetts WIN Efforts

I'd like to discuss briefly our success to date in operating the Work Incentive (WIN) Program in Massachusetts. The Massachusetts WIN program has an employment and training staff of only 305 people operating out of 37 WIN offices throughout the State to serve a welfare registrant pool averaging 74,000 at any single time, but totalling over 100,000 during any one year.

In the first three quarters of this fiscal year, over 7000 recipients have gone into permanent, unsubsidized employment at an average cost of $680 per person, one of the lowest WIN costs in the country. The wages generated by these recipients' going to work will exceed $32 million over the next year. More importantly, the $13 million in welfare savings generated during the first nine months is more than double the WIN expenditures of $6.3 million.

It is important, also, to look at the characteristics of the WIN program we operate in Massachusetts. First, our primary focus is on direct placement into the private sector of job-ready recipients. Private sector jobs offer a greater variety of opportunities, last longer, and involve more transferability of skills than do subsidized jobs in the public sector (PSE).

Secondly, we earmark a large share of our WIN resources for WIN on-the-job training contracts in the private sector. We use WIN/OJT as a marketing device, and have found that it is an excellent means of "opening the door" to private sector employees. In fact, we meet the one-third WIN OJT/PSE spending requirement entirely through OJT contracts.

Third, we use other manpower programs whenever possible, especially the expanded CETA public service employment opportunities. Since the President's announcement of the Economic Stimulus program last Spring, over 9,000 recipients have been referred to these CETA jobs, of whom 2,000 have been hired.

Finally, we have stressed service to unemployed fathers as a high priority in our State. Last February, we began an intensive effort to find work for male heads of households. By the end of June, 3,300 fathers had taken full-time jobs, most of them in the private sector.

WIN Improvements

Although we have been quite successful in helping people find work, we could have even better results if the following changes were made in the WIN authorizing legislation.

First, if more mothers are to go to work, more effort must be given to locating and expanding the supply of day care. This is our single largest obstacle in working with welfare mothers. Authority should be granted to use WIN funds for remodeling and equipment costs where needed to establish day care centers. In addition, since it is quite difficult to find suitable child-care after school until a mother gets home, public and private schools should be given financial inducements to operate after-school programs. Priority in day care must be given to working mothers in areas where the supply of day care is limited.

Second, if more fathers are to go to work, some type of financial supplement and medical coverage must be provided. Because they lose all welfare benefits after 100 hours of work in a month, unemployed fathers have little incentive to take a job unless they can qualify for something at a very good wage. Loss of medicaid benefits also deters unemployed fathers from taking full-time jobs and leaving the welfare rolls. In short, the system encourages unemployed fathers, even more than mothers, to remain on welfare rather than work.

Third, the WIN adjudication system needs to be simplified. The time it takes to remove a recipient who refuses a suitable job from the welfare rolls makes the mandatory provisions of WIN virtually unenforceable. The "60 day counseling" period, presently after the formal hearing, should be placed before it so that the recipient knows that the result of that hearing is binding. Finally, the 90-day disqualification from welfare benefits for those who have refused appropriate jobs is too short to be effective.

Fourth, more funds are needed for short-term classroom training, particularly in the clerical and other fields which are better taught in a classroom than on-the-job. We cannot now meet the demand by recipients for this training, nor the demand by employers for trained workers. In addition, we cannot provide extensive services to non-English speaking recipients because of their generally greater lack of skills and the lack of funds for English language training.

Fifth, and exceedingly important, we need to clarify the WIN legislative authority to run mandatory Work Experience programs like the one we are proposing in Massachusetts. Many recipients in our files are being rejected for both private sector and CETA public service jobs because they lack a recent work history. In many cases, these people need a short term successful work experience to prove to themselves and potential employers that they can maintain a good work record for a period of six months or so.

We believe these improvements in WIN should be made now, so that the best possible program can be operated in the interim, before the implementation of a welfare reform program. I think the hard-working taxpayers of this Nation would agree.

Food Stamp Program

My comments on the Food Stamp work requirement will be brief. It is a charade. In Massachusetts we only have 14 positions in total, statewide, for this effort. Those positions are used just to keep track of the paperwork--nothing is left for the work test. On a nationwide basis only $28 million is allocated to the program.

It seems obvious that the Food Stamp work test and the WIN work test should be integrated to save money and confusion, and that the WIN program should be expanded to cover the population receiving Food Stamps. The current system of recipients taking "pot luck" in the regular Employment Service office (Wagner-Peyser) is not as intensive a service as WIN can provide. In addition, it is not compatible with State Employment Security efforts to upgrade their regular E.S. operations.

Welfare Reform

As a State employment security administrator on the front lines, I have a number of suggestions which I hope the Congress would consider in shaping and enacting the President's welfare reform proposal. We think these suggestions would improve and strengthen that bill.

First, a stronger role for the Governor is necessary to insure that services are effective and to develop a plan for the State-local split of responsibility. Attempting to make this division on a uniform basis in all 50 States ignores very real differences among them in their geography and organizational arrangements. This authority to insure program effectiveness is particularly important due to the requirement of Supplementary State Payments.

Second, the proven success of the WIN program and the expertise of the WIN staff should be retained and not tossed out. It takes several years to build this kind of capability and management systems. It makes no sense to slip backwards for two or three years while entirely new systems are developed and new staff are recruited and trained.

Third, the very existence of a large number of public service jobs can hinder private sector placement for reasons of status and working conditions. We experience great difficulty moving PSE workers into suitable private sector jobs. I am concerned that we may be creating a permanent class of low wage public job holders in lieu of the present situation where most welfare recipients are in and out of the unsubsidized job market on a regular basis. Greater reliance should be placed on private sector jobs and training therefore.

Fourth, if we are to encourage recipients to leave a public service job for a private sector job the 10% incentive (Earned Income Credit) should be increased and, if possible, provided on a more timely basis. This problem will be compounded if the PSE jobs pay more than the minimum wage since the job holder's income will be more adequate.

Fifth, our experience has shown that the most efficient way to do job development for welfare recipients is on a coupled basis with the marketing of OJT contracts as an inducement to employers. If job development and OJT are separated, neither will be as effective.

Sixth, five weeks is far too short a period to determine the availability of appropriate jobs, before making PSE jobs available. Given the dynamics of local markets at least 13 weeks should be available to find unsubsidized employment. This is roughly comparable to the average duration of unemployment compensation, and so represents a more realistic time to locate employment. By making the period as short as 5 weeks, we seem to be again pushing people towards the public sector and away from the private sector.

Seventh, day care capacity building and locator services should be totally integrated with the employment and training effort. As I stated earlier, the lack of day care is the single biggest obstacle to the employment of more welfare mothers. We should have learned by now that separated systems don't generally produce good results.

Conclusion

To sum up, Mr. Chairman, the WIN program is working in Massachusetts, but it could work better. We believe that a great number of recipients could become self-sufficient if there were more resources available and if some legislative changes were made.

In any program such as this, however, a clear, strong commitment is needed from elected officials. Fortunately, Governor Michael Dukakis in Massachusetts has made finding jobs for welfare recipients a major priority of his administration. By merging the resources of the Employment Service, the Public Welfare Department, and the CETA programs statewide, a State can run an effective employment and training program for those on public assistance. Without that coordination and strong leadership at the State level, however, neither WIN nor the new efforts at welfare reform can succeed.

Thank you very much for the opportunity to appear before you.

Mr. FOUNTAIN. Mr. Smith, we will now hear from you.

STATEMENT OF ROBERT C. SMITH, DIRECTOR, PLANNING AND PROGRAM OPERATIONS, MANPOWER DEVELOPMENT CORP., INC., CHAPEL HILL, N.C.; ACCOMPANIED BY ED DEMENT

Mr. SMITH. Thank you, Mr. Chairman.

I am accompanied today by Mr. Ed Dement, of our staff. We are glad to be here.

MDC has done a couple of recent studies that I'd like to mention briefly. And if you don't mind, Mr. Chairman, I will speak informally from notes from my statement, because I don't want to take more of the time than is necessary.

Mr. FOUNTAIN. Your entire statement will become a part of the record.

Mr. SMITH. We did a study recently of 50 projects, Mr. Chairman, that were mounted under the new title VI expansion program around the country. Those project descriptions were put together in a notebook and sent around to prime sponsors throughout the country in the hope that they would be of use in helping prime sponsors set up expansion of title VI public service employment projects.

I mention this because it has lead to another study that we're engaged in which is more intensive in nature. We're looking presently at 30 prime sponsorships in the country for the Department of Labor and asking the questions: How is that money being used? What were your problems in cranking up this new expansion money? How is it going? Who are the people who are eligible for it? Who's getting the jobs?

I mentioned that study only to say that, in a sense, I wish that we could be called on to testify 3 months from now because I think we would have some better answers. We can only say that we will, indeed, report to the Department in detail and in writing and hopefully we'll have some good answers to those questions.

What I'd like to do today is just discuss some preliminary things that we think we may know, or some things which may at least be worth mentioning at this point with regard to the question of AFDC clients and the general area of public employment—not to exclude private employment but simply to look at it from the standpoint of what public service employment can mean to these people and what potentially welfare reform may mean to them.

I'd like to say in the beginning that while it seems to us to be true that certainly AFDC clientele is a volatile group which does move in and out of employment, at the center of this large group is a group of mothers—and to some extent fathers—who are very much in need of intensive training and preparation if they are to hold jobs successfully and continuingly.

Some years ago, we developed a small program which was intended in an 8-week period to help chronically unemployed individuals get employment. We recruited these people and gave them a kind of peer group training, in the sense of confidence—which I think may be the key word in dealing with this clientele—that they could succeed. Then with some job placement and some job coaching afterward, we developed a pretty good track record with the chronically unemployed individuals.

The program that we developed is in place, Mr. Chairman, in North Carolina in 53 of the State's community colleges. It is a system which you're well acquainted with. It has been copied elsewhere in the country.

I mention that not because we think it's the greatest thing that ever happened, but simply because we feel strongly that—and I'm very pleased to hear Dr. Packer say—there must be some kind of real training that can provide the confidence this clientele needs. It must be an important part of any attempt to place this group, in any large numbers, in employment.

Now, what is happening now? Under CETA, to a large degree, I fear from what we have seen—I say fear; it is not really so much a fear as it is a realization that when you require prime sponsors to produce numbers to show the gains that are being made—and indeed they must be so required—it is very difficult to expect the prime sponsors to tackle the most difficult group in order to gain employment.

So I suspect at this point from what we have seen—just barely looking at the beginning of our study of the 30 prime sponsorships—it may be that the results, in terms of placement of AFDC recipients, will not be as great as perhaps this subcommittee would like it to be.

There are some very early returns which suggest that veterans preferences are perhaps being met better than one would hope AFDC preferences are at this particular point.

Again, I say it is very early to be making any guesses on it. But it would not be unreasonable to expect that the AFDC population will not be reached without some greater and more extensive effort.

In that connection, I do think that it would be amiss if we didn't make this observation:

It seems that back in the 1960's manpower programs had great confidence in training. So much so that they were criticized frequently for doing a lot of training for jobs that didn't exist.

I think to some degree we may have gone perhaps a little too much in the other direction, and we are now finding jobs for people who are, in some cases, not adequately trained for them. There has to be a mixture, it seems to us, of training and jobs. It has to be applied sensibly and sensitively to the kinds of populations that we're talking about.

In that connection, I would like to make a few comments about our early observations about the title VI expansion.

This money has been the subject of some horror stories in newspapers around the country. This is nothing new. When new money is pumped into the system, there are always abuses and misuses of it.

Our very early take is that the story is going to be much more pleasant reading across the country. Indeed, the programs are cranking up; people are getting employed; and they're getting employed at an increasingly rapid rate.

The other part of it that we're particularly intrigued with and pleased with is that we're convinced that it is indeed possible to create projects for public service employment that are meaningful in the community and to provide jobs for the wide range of unemployed people—right from the AFDC clientele up to those who are just temporarily disadvantaged in employment and have skills.

The book that I mentioned earlier—our 50 projects book—contains a number of projects that we recommend for people to look at who do not believe that public service employment can be meaningful.

One interesting note from that, for what it's worth:

Our observation is that these projects seem to show more promise when they involve a mixture of one or two skilled individuals and a number of unskilled individuals; so that what you are doing, in effect, is training. Although training is not necessarily a requirement in public service employment, if we're going to talk about unskilled people, we'd better talk about that too.

Let me give you just a couple of examples of what I'm talking about:

We found a mosquito-control project, in New Hampshire, that I like a whole lot. That project hired an etymologist; and the etymologist trained 50 hard-core, chronically unemployed individuals in the skills of determining between the various varieties of mosquitoes, seeking them out in their breeding places, and destroying them.

This is a skill that could certainly lead to permanent employment in any number of different directions in sanitation work.

A woodland project, for instance, in New York where a forester trained individuals without skills in the trade of forestry. And at the same time did something very essential in that community where they were having some serious replantation problems.

I would like to mention two others that come perhaps even closer to reaching the matter of AFDC clientele. A family day care center in New Jersey was a project that started out, in effect, in the homes of AFDC clients themselves who are being taught how to take care of other peoples' children.

We heard a little earlier that one of the frequent complaints, and certainly a very true one, is the lack of adequate day care facilities around the country. It seems to me that there is a tremendous opportunity for AFDC mamas who are a large population—and perhaps the most difficult in some ways to reach—to be useful.

A similar project in Mississippi was a summer day camp project for children. Once again, it was manned almost entirely by AFDC recipients who were able to use their family-developed skills to make the project useful.

So it's too early to say that these are going to be successful. They are really just off the ground, but I think they offer a great deal of promise.

We think that in this kind of employment there are five key things. You must have some leadership; you must have some supervision; there must be some element of training so that you're not going to leave people at the end of 1 or 2 years actually no better off in terms of their future than they were when they came into the program; there must be a flexible mixing of funds, and we were pleased to see how many projects around the country are using other than CETA funds—EDA, or other kinds of available funds from other departmental budgets—and very creatively, to pull some projects together; and, finally, a sharing among prime sponsors of the lessons that they are learning.

We'll see how these projects work out later, but I would like to express one concern before concluding.

I have just returned from the first site visit that my organization has made in the new study that I mentioned to you. I have talked with some of the people who have been out in the field.

I would say that if there is one concern, we would all express it something like this:

The Congress of the United States has its own time schedule for the appropriation of funds and its own needs. The administration of the President of the United States has its own priorities. Whenever a critical situation is apparent, pressure becomes strong to move and to move quickly. And that's quite understandable.

When the Congress acts, the Department of Labor then must set up its regulations; they must begin the process of training that goes through the regional offices to the prime sponsors.

By the time this new package gets to the prime sponsors, sometimes there isn't any more time.

If we have been told once, we have been told a hundred times by prime sponsors: You expect us to plan these projects, and then you come down here and give us this money and it has to be spent tomorrow. And if it isn't spent tomorrow, you're going to take it and put it somewhere else.

I would just offer a plea to consider, as seriously as possible, the needs of the prime sponsors and the people at the program level to plan programs out before the money is spent.

I fear that one of the things we may find in the title VI expansion is that, in the end, we could have done better with the money if we had gone about it a little slower.

Thank you, Mr. Chairman. I appreciate the opportunity to testify.

Mr. FOUNTAIN. Thank you very much for another fine statement. You made some extremely important suggestions.

[Mr. Smith's prepared statement follows:]

PREPARED STATEMENT OF ROBERT C. SMITH, DIRECTOR, PLANNING AND PROGRAM OPERATIONS, MANPOWER DEVELOPMENT CORP., INC., CHAPEL HILL, N.C.

Thank you, Mr. Chairman. We are pleased to accept the invitation to be here today. For the record, my name is R. C. Smith and I am accompanied today by Ed Dement. Our organization is MDC, Inc., of Chapel Hill, North Carolina, a non-profit private corporation engaged in research and demonstration work in the field of Employment and Training since 1967. Our demonstrations in the field of training chronically unemployed individuals go back to the days of the Manpower Development and Training Act. One particular technique for this training which I shall mention briefly later on in my remarks has been utilized widely in North Carolina and in other states. We participated in one of the national experiments on the relocation of unemployed workers from job-scarce to job-plentiful areas. With the advent of the Comprehensive Employment and Training Act of 1973, we shifted our demonstrations and studies to this new arena of effort and gradually broadened the geographic base of our work from the state to the region and then to the nation. We have been working most recently to assist the Employment Service in the Southeast (Region IV, Atlanta) to meet its new responsibilities to the unemployed and underemployed, to promote self-evaluation of employment and training programs by CETA prime sponsors nationally, and to develop a model in North Carolina of how CETA can be effective in rural counties lacking a central growth base.

We have also been conducting a series of national studies for the Department of Labor. We began this work with a contribution to the pioneer work of the Center for Manpower Policy Studies which in 1973-74 studied the Emergency Employment Act of 1971 (PEP). Our later studies included an assessment of the CETA Title I Special Grants to Governors (one, four, and five percent monies), and a compilation earlier this year of Fifty Projects of an innovative nature developed with new Title VI "project" funding. This last study led directly to a more comprehensive one. We are presently reviewing Title VI expansion activities in 30 areas across the nation. This study is an attempt to learn to what degree legislative goals are being met in the field, to what degree performance is falling short of these goals, and -- hopefully -- what might be done to bring performance more in line with expectations.

We have just begun this last study. So in a way, our appearance before this subcommittee at this date is premature. Many of the questions I understand the subcommittee to be interested in are the subject of our just-begun study. While my answers will be necessarily tentative at this point, we can promise this subcommittee rather more complete answers to some of the questions, in writing, a few months from now.

At this time we would like to comment briefly on three areas of your inquiry: First, to the matter of whether AFDC recipients are being aided by CETA and whether it is realistic to expect welfare mothers to work their way "off" welfare; second to the relationship between the Employment Service and CETA prime sponsors and how ES might be strengthened to assist welfare recipients to find jobs; and third to the question of how Title VI of CETA is being implemented and to what extent innovative work projects are underway.

While we are making the experience of AFDC recipients under CETA Title VI a central issue in our new study, experience with recent studies and our long-term experience as developers of training techniques for the chronically unemployed give us a framework from which to attempt to answer the first questions. I would say that the impact of CETA upon AFDC recipients is probably not as great as either the sponsors of the legislation or the members of this subcommittee would like it to be.

The basic reason for the minimal results is that, as a group, welfare recipients constitute the toughest kind of structural unemployment problem. A high percentage of them cannot be readily moved into the kinds of jobs that we all recognize as attractive and rewarding. And because they have some minimal support already, they are often understandably hesitant to take "just any" job -- which may not offer a significant boost in their income. We have found this hesitancy is further encouraged by the fact that welfare recipients tend to have little confidence in their ability to succeed in the job market.

To increase significantly its impact on welfare recipients, CETA would have to offer incentives to prime sponsors to spend the extra time and money needed to prepare these individuals for unsubsidized employment. But while the legislation addresses the problem there are no real requirements in this respect. To the contrary, the emphasis put by the regulations on placements -- on "numbers" as proof of success -- operates against the placement of welfare recipients for the reasons cited above.

Let me give you an example. The language of Title VI of the Comprehensive Employment and Training Act indicates that it was the intent of Congress to reach welfare recipients as well as other long-term poor with public service employment. One of the tasks of our new study will be to get a feel for how much of this is happening. It's too early to say for sure. But we do have some preliminary figures from 18 of the prime sponsors involved in our study that may indicate what is really happening. In these 16 prime sponsor areas, during the first two months of Title VI expansion, veterans accounted for from 19.7 percent to 53.3 percent of all new enrollments while AFDC recipients accounted for a low of 3.5 percent to a high of only 24.3 percent.

We're certainly not suggesting that too much emphasis is being placed on enrolling veterans on Title VI, at least not on the basis of scattered, early returns. But past experience with public service employment programs does persuade us that given the choice between two priorities for placement, prime sponsors are likely to choose the more job-ready over the less job-ready.

In fact, preliminary surveys show that local prime sponsors have tried, in some cases, to put more welfare recipients into public service jobs. But those jobs have turned out to be too demanding. The prime sponsors have had to draw from among other groups of the unemployed.

The WIN program was created in an effort to ease the problem of placement of welfare recipients in employment. It has moved some significant numbers of persons off welfare rolls. But even in localities where it has worked well on its own terms in North Carolina, for example, it has not reduced numbers of welfare recipients. Our studies have found that it improved the chances of WIN enrollees in landing an available job -- but that it did not do so at a rate that matched the increase in welfare eligible recipients. And it may have created welfare recipients out of the others competing for the scarce jobs the WIN enrollees got. In any event, in North Carolina WIN operates in fewer than half (47) of our 100 counties.

But whether we are talking about WIN or public service employment, it is foolish to blame the program for shortcomings that are built into it. If we assume that everyone seeking public employment today were equally qualified, we might simply attach numbers to the priorities established and expect the prime sponsors to deliver those numbers. The assumption is dangerously in error, however. A public employment program without a training component is a doubtful blessing to the hundreds of thousands of untrained or marginally skilled individuals on the welfare rolls. These people ordinarily need intensive preparation even to reach the stage where they are ready, willing, and able to work. My organization, MDC, developed an eight-week job preparedness training course for chronically unemployed individuals back in 1968 -- that is the program I mentioned before that has been utilized widely inside and outside the state. The program involved chronically unemployed individuals in a group sharing and learning experience that builds confidence and motivates clients to seek and retain employment. Something like this, and some skills development, is going to be necessary to ready welfare recipients in any significant numbers for unsubsidized employment.

I am concerned that we may have misread some of the lessons we all thought we learned in the late 1960's and early 1970's. Those of us in "manpower" in those days were convinced that training of one sort or another was an essential ingredient of the employment process. It might have been fairly said -- and was -- that in some cases programs of that era suffered from too much training for too few jobs, or adequate training for nonexistent jobs. The pendulum has swung sharply to the point where major funds in many CETA programs are going to job-creation, pure and simple, with no training involved. If it didn't make sense to train people for jobs that weren't there, does it follow that the answer is to put people on jobs they are not trained to hold? If we were to put thousands of AFDC recipients to work tomorrow without preparation, we would be doing them a grave disservice and, in the process, demonstrating a way of building failure into a program that could be and should be successful.

To the second point: The Employment Service. It is our observation that the Employment Service is involved heavily in the CETA process, ordinarily at the beginning for recruitment and assessment and again at the end for placement. Generalizations are treacherous but I would say that it is still true that the ES offices are referral staging areas for a fraction of the community's available jobs, quite often with a predominance of secondary labor market jobs, and those providing casual or seasonal employment. In this kind of setting, too often, the unskilled -- and that term would certainly apply to most AFDC recipients -- are forced to compete with far better prepared applicants for available openings.

It is well that attention at the national level is being given to what the primary mission of the Employment Service should be and how its goal or goals can best be met. At the present time the ES is being asked to add a panoply of services for the disadvantaged to its more traditional tasks. If this multiplicity of priorities continues, we should look for structural changes to accommodate the diversity of program responsibility. The differing needs of employers and applicants may well call for a division of present ES functions -- an employment service, for instance, separate from an employability development service. Something like this accompanied by intensive organizational training work within ES itself might prove feasible, along with a more thorough exposure of ES personnel to the needs of CETA clients and the goals of CETA programs.

We've read, of course, the many arguments for and against radical restructuring of the Employment Service. Based on our own experience, we are inclined to believe that each state may have to pursue a different course toward the common goal of upgrading the role ES can play in the overall development process. We see no panacea here and are doubtful that the problem could be solved by legislation at the national level.

Finally, I would like to address a few words toward that question which is drawing my organization's fullest attention at the moment: The matter of how expanded Title VI of CETA is being implemented and to what extent innovative work projects are underway. Once again, a caution: What I have to say here is tentative and subject to change as our study proceeds.

We have the impression that, all things considered, the implementation of new Title VI programs which began last May is proceeding moderately well. Although we have only begun our in-depth study of the 30 prime sponsors, I could fill a notebook with the problems that have been identified and with complaints directed by prime sponsors at the Department of Labor and vice versa. Despite ambiguities in national objectives, the usual delays in funding, and a host of problems ranging from national to local, it is our initial impression that Title VI "project-style" public service employment is off and running. As usual, the headlines are dominated by "horror stories" of the misuse and political abuse of these funds; however, in most places where we have had contact, the story is less dramatic and considerably more cheering.

Of one thing we are firmly convinced. It is indeed possible for prime sponsors everywhere in the nation to find labor intensive projects that do create new jobs. It is possible for prime sponsors to develop innovative projects that can provide badly needed -- and hitherto neglected -- public services.

We have the proof of this in a document I've referred to earlier. We call it our Fifty Projects notebook. It includes descriptions of fifty public service employment projects around the country. It is a fascinating document because it shows simply and non-directively how prime sponsors can determine what services are needed in their community, develop project ideas to meet those needs, blend funding from a variety of public resources, and get the projects underway. This "notebook" has been distributed through regional offices of the Department of Labor to prime sponsors all over the country.

The notebook also suggests to us some possibilities for training hard-to-employ individuals while on the job in public service employment. We noticed that several prime sponsors were using a "team" approach toward their public service projects. They would employ one or two relatively highly-trained individuals from the pool of unemployed and put them in charge of a crew of unskilled and -- in some cases -- chronically unemployed workers. For example, two entomologists were placed in leadership roles over a crew in a New England project designed to identify mosquito breeding places and eliminate the mosquitos. The project called for a good bit of training of the crew by the leaders in identification of mosquito types and in the eradication process itself. It is too early to tell whether this type of peer sharing of training while on the job can substitute for the more formal job preparedness training I mentioned earlier in this testimony, but it is a technique worth watching. It may hold out promise for employing welfare clients in the future.

This is but one example of many that could be cited from the notebook. We're inclined to believe that to the degree that legislation encourages (1) leadership, (2) supervision and training, (3) peer grouping of the chronically unemployed, (4) flexible mixing of funds for materials and management as well as labor, and (5) sharing of experiences among prime sponsors, the possibilities for "project style" public service employment are virtually without limit.

At this point, we don't know whether the high hopes for the projects in our notebook will be realized. We will be revisiting them later on this year and next year with that question in mind. And we don't know the degree to which these projects are the exception rather than the rule. Our suspicion is that, pressed to act within a tight time frame and given little real guidance, many if not most prime sponsors opted for more traditional public service employment approaches with their expansion funds.

I can promise you that we will be presenting to the Department of Labor our best efforts to answer the multitude of legitimate questions that arise over the issue of the new public employment program. Our effort will be ongoing and we intend to report on progress later this year. We will be presenting a final, written report to the Department in February, 1978.

We appreciate the opportunity to appear before you on behalf of MDC, Inc., to make these remarks today.

Thank you.

Mr. Fountain. Dr. Packer, I believe the 1971 Social Security Amendments require all AFDC recipients to register for the WIN program and at least one-third of the manpower funds to be spent for on-the-job training in public service employment. Is that correct?

Dr. Packer. I don't believe that it's all welfare recipients. Those with children under age 6, for example, needn't register.

Mr. Fountain. Is that the only exception?

Dr. Packer. No, there are other exceptions that also pertain. But I think the general thrust of your question is correct.

Mr. Fountain. I asked the question because in testifying before the subcommittee in July, Dr. Sar Levitan said most evaluators have found that WIN's "net" benefits are small and that claims of welfare savings are "highly optimistic."

More specifically, he said:

> Although WIN officials parade impressive statistics on placements and welfare savings, the proper focus must be on what WIN accomplishes that would not otherwise occur. For example, the Labor Department claimed that more than 2 million persons participated in WIN during fiscal 1976; 675,000 received services to improve their employability; 211,000 found full-time, unsubsidized jobs, and 20,000 more found part-time jobs; however, based on past experience, probably not more than one-third of these persons were able to leave welfare rolls.

I wonder if you would care to comment on Dr. Levitan's assessment?

Dr. Packer. Of course, Dr. Levitan is a well-recognized expert in this field and much of what he says bears listening to.

Let me start with his last statement about leaving the welfare rolls. I think we have to focus on how much welfare people get, and not just whether they are on or off the rolls. In the welfare reform proposal of the President, we do provide work incentives so that people can still stay on the rolls—still get some of their welfare as they work—but they will get less welfare.

So the criteria of whether or not a recipient stays on welfare, I think, is the wrong one.

The point made by Mr. Hilburn regarding medicaid, I think, is an important thing to bear in mind. For many people, the way the system is now constructed, leaving welfare completely means leaving their medicaid; so they are much better off working up to a point where they can reduce their welfare benefits and increase their income but not get off welfare and lose their medicaid.

It is very difficult to evaluate programs in the absence of control groups—when you watch what program participants do, relative to those who are served routinely.

So it is difficult to distinguish between what would have happened without the program and what happens with the program. I think that's the point Dr. Levitan was making, and it is a good point.

Mr. Fountain. I wonder if you'd comment on how the President's plan would treat medicaid eligibility?

Dr. Packer. At the moment, we're not changing that. But the intent is to have a national health insurance proposal before the Congress sometime in the first half of next year. We will certainly seek to avoid the so-called "notch" problem that makes it prohibitive to leave welfare and the medicaid protection that recipients have.

Mr. Fountain. I'm sure Mr. Hilburn would like to comment on Dr. Levitan's assessment in view of his observations about the success of the WIN program and the welfare savings from WIN which were estimated at $300 million the first 6 months of fiscal 1977 alone.

We'd be glad to have any comments you might care to make.

Mr. **Hilburn.** Thank you, Mr. Chairman.

Taking his second point first, which is the one that Dr. Packer addressed, in Massachusetts in order to leave the welfare rolls, we have to find a welfare mother a job that pays $11,000 a year—and there aren't too many of those lying around. And that's why they don't leave the welfare rolls.

You can find decent paying jobs which, when added with a small supplement and a medicaid insurance package, enables them to be provided with a decent environment for their families. But they don't leave the welfare rolls—you're absolutely right.

That's for a family of four—that $11,000.

Going back to Dr. Levitan's first point, I think that it's very, very difficult to measure what would have happened without, as Dr. Packer mentioned, a control group. You have to measure not only going to work, but you have to measure how long did the individual stay in a job that he obtained with some assistance, as opposed to the job that he might have found on his own.

The retention rate, in other words. Is that improved?

You have to look at the wage levels and does the assistance that's provided her or him get a higher wage job than would otherwise have been found.

I think there is some truth to what Dr. Levitan's impressions are—that there is some factoring of that. In Massachusetts, as I said, our welfare savings are running twice the expenditures.

I think there is some factoring down—20 percent or 30 percent.

In any event, even with some factoring down, I think that the savings exceed the expenditures in Massachusetts. I can't speak for the Nation as a whole.

Mr. **Fountain.** Dr. Goldberg?

Dr. **Goldberg.** Do any of you gentlemen know of any controlled studies that have been conducted to measure the success of WIN in terms of retention, and generally the comparison of what might have happened in the placement of individuals in employment in the absence of the WIN program?

Dr. **Packer.** There is a Pacifica study that gives some early indications. It suggests that the emphasis on placement is too strong, as opposed to training.

That study has not followed the WIN recipients long enough to give us definitive results. So we don't know what happens over a period of time; for example, the data are particularly influenced by the placement of people on welfare in CETA jobs—or CETA training programs. We've not had the time yet to follow them after they leave the CETA program into the private sector.

But that is a study that was undertaken.

Dr. **Goldberg.** Did that study try to identify whether, given enough time, individuals would have found jobs on their own—jobs for which WIN takes credit? I think that's the thrust of what Dr. Levitan was saying.

Dr. **Packer.** Yes. That's what it did. I think it's instructive in that case to look at the food stamp situation, in which we spent very little money per recipient. Yet I think the numbers over a period of years are a million people who were placed who were food stamp recipients.

So it is always difficult, without control studies, to see what the net impact is.

Mr. Hilburn. In Dr. Levitan's book, recently published on the problems of minority populations, he talks about manpower programs as a whole—not just WIN, but all manpower programs—whether they be CETA or run by CETA prime sponsors or other people.

He indicates that if one looks at wage gain, which is the normal factor for manpower programs, one finds very small gains in manpower programs.

I would not expect WIN to be markedly different. I think it's better than a lot of the other programs we've run over the last decade, but I would not expect it to be markedly different from all the other programs.

He indicates that the provision of cash and the opportunity for minorities to participate in the staffing is how he justifies the value of the programs. The wage gain is very small.

Mr. Fountain. Dr. Packer, I wonder if you would describe specifically how the President's approach to encouraging work on the part of employable welfare recipients differs from the WIN program. Also would the WIN program be continued under the President's plan, or would it be consolidated with CETA?

Dr. Packer. The second part of your question is easier, sir. We would consolidate it within the new program. We think we would not lose what we have gained under WIN, and we'll be able to multiply and exploit what the WIN operation has learned. The personnel that are there will be able to make an even greater contribution than they do now.

I think the President's program is dramatically and radically different from the current situation. I think in many cases welfare recipients have had frequent unsuccessful experiences with the job market. They have come in and been turned down by one employer after another. Or if they've gotten the job, it's been temporary and not as productive as they would like.

There is a feeling, in some cases, that there is a work requirement in force to look for something that is not there.

The President's proposal is to start off on a different foot and say: If you're expected to work, we—the Government—and you—the individual—will have a shared responsibility. You have a responsibility to take the job, but we have a responsibility to find you one. It's not going to be 10, 20, or 30 percent that we're going to find jobs for. Rather, we hope that at the end of 5 weeks, and not more than 8 weeks, we are going to find jobs for all eligible applicants. If we can't find it in the private sector—and we'll use the first 5 weeks to find it in the private sector—then we will attempt to provide you a subsidized job that also provides income, training, and the first step up.

So someone begins with the thought that it's not whether I'm going to work, but what type of work am I going to do. That is what will be determined by the 5- to 8-week search process.

I think that's just a very, very different way of life from the WIN system or the employment system, and for the clients that are involved.

Mr. Fountain. Mr. Hilburn, do you have data showing that a welfare recipient is much more likely to find a private job if the search period were extended to 13 weeks instead of 5, as recommended by the President; or is this conclusion based on your judgment?

Also, in this connection, would it be preferable, in your opinion, to have that individual continue drawing welfare benefits for up to 8 additional weeks while looking for a private job, rather than have the recipient perform constructive work in public employment?

Mr. **HILBURN.** I guess I'm confused, Mr. Chairman, by the last part of your question. Eight additional weeks on top of the eight?

Mr. **FOUNTAIN.** Yes, the 8 weeks between 5 and the 13.

Mr. **HILBURN.** We do not have data on the 13 weeks.

I think that the Labor Department would be able to draw some analogies from the labor market behavior of unemployment insurance recipients.

When you put the populations together of the President's proposed welfare reform plan and the unemployment insurance caseloads, there are a number of similarities. One might be able to draw some analogies on that, in terms of how fast people return to work.

And, also, the similarity of the fact that they're drawing a cash payment, which obviously enables them to be a little more selective in the job that they go back to.

But when you're talking about a local labor market—a very small area—particularly if there are transportation problems and one does not have a car, the kind of a job fit that one can make is, as commonsense would indicate—if you have a little bit more time, the options are much better; and you may be able to do a better job.

Of course, I think that is what is worrying us—your comment about how the President's plan differs from the current system.

With the stress on public service jobs, which we even see with the title VI, there are a number of welfare recipients who prefer the status of a Government job and the security of a Government job as opposed to some factory work which does not have the status and may not have as good working conditions.

It makes it very, very difficult. You cannot really expect welfare recipients to behave any differently than you or I in terms of picking and choosing a job.

One more point, perhaps, responding to your comment to Dr. Packer. If I might differ with my brethren, I believe you and he used the words "consolidate WIN with CETA." I don't really read the bill that way. I don't believe it consolidates it. I believe what it does is replace WIN. The WIN program as it exists today would no longer exist under welfare reform. That's a technical accuracy.

These people are State employees and obviously could not be transferred to be employees of local CETA consortia.

Mr. **DUNCAN.** I would like to ask a question in connection with this. This 5-week intensive search period: Could you clarify for us what you mean by intensive 5-week job search period? This would be distinguished from one that is not intensive.

I know when many of us are looking for jobs it is a pretty intensive process.

What exactly do you have in mind for this person to be going through during that 5-week period?

Dr. **PACKER.** Before I answer that specific question, I would like to address the 5- to 13-week question.

We did consider that very thoroughly in the administration in coming up with that number. We were trading off the following advantages:

Certainly if you have 13 weeks to place somebody, you are more likely to be successful than you are at the end of 5 weeks. Not two and one-half times more successful, because if you haven't been able to place somebody after 1 month or so, I'm not sure that after 3 months you're going to do that much better.

But we thought: How long can we keep people at the low welfare payment for those expected to work? And we didn't want to keep them at that level too long. Even under the current proposal, we're keeping them at the lower level for up to as much as 8 weeks.

We also have a concern that once you put families on higher welfare benefits, a job—private or public—becomes less attractive.

So it was a tradeoff between being too mean, so to speak, with very low benefits for too extended a period and losing families to the welfare system, and forcing the employment system to do its job within a 5-week period. We think 5 weeks is an adequate time if the Employment Service intensively seeks jobs for these people.

The intensiveness of the situation perhaps reflects more on the Employment Service than on the individuals. We will provide a substantial increase in the funds per person for this group of people. People will come in and say: "I'm the head of a family with children; I want to get into that program. I know I have to go through this 5-week period, but let's begin because I'm interested in that operation." For these people, we are providing more money for testing and counseling. There is a period of time to explain to individuals what is involved in looking for a job with regard to preparing a résumé and with regard to dress and deportment at an interview. There are many people, who have been discouraged, who walk in to their prospective employer and say: "I guess you don't want me either." That's not the way to get a job.

There needs to be developed a positive attitude among jobseekers.

There is more money for job development that we will have. We will provide additional funds so that the Employment Service will go out and seek a position that will fit the qualifications of individuals—perhaps to sell an on-the-job training—OJT—contract.

So there will be substantially more funds per recipient to work with the recipient for counseling, testing, job development, as well as the normal intake, referral, and followup process that the Employment Service does for anyone who walks in the door.

Mr. Duncan. Are you anticipating then a major expansion of the staff of the Employment Service under this program?

I don't know how many people one Employment Service counselor can handle in intensive search over a 5-week period of time. I would imagine there would be daily contact if we're using intensive in the same notion here.

Are we talking about a substantial doubling or tripling of the Employment Service counselors and staff to handle these folks?

Dr. Packer. I don't think it's a doubling or tripling.

First of all, it is correct that the WIN program, as an entity, would no longer exist. More specifically, its services would be spread over the larger population served under welfare reform on an as-needed basis. But we are providing, in the administration's proposal, $400 million for this intensive job search. Now some of that one has to take out for the WIN program, because that funding is eliminated.

But a substantial part—perhaps close to one-third—of the WIN funding is for things other than job development and placement services. It is for things such as day care money and social services.

So it's perhaps that increase of one-third and retention of the rest of the money spent for WIN for these purposes that would be used either to maintain the staff or create further staff to do the job development or to do the counseling and testing.

Dr. GOLDBERG. Just one question for clarification.

You made reference to the low welfare benefit. Is it the intention of the plan to provide a low benefit to the individual during that 5-week search period as though the individual had refused employment?

Dr. PACKER. That's right. As much as 8 weeks.

Those expected to work can be waiting for up to 8 weeks with a low benefit before moving up to the higher benefit.

Dr. GOLDBERG. As I understand the plan, the public employment slots would be available for a 12-month period, after which the recycling would begin for another 5-week search period.

Would the family go down again to the lower welfare level during that period?

Dr. PACKER. Not for the first 2 weeks. For the first 2 weeks they're paid the same salary they had at the PSE job. That's 2 weeks of paid job search. But if that doesn't provide a private job after this year plus 2 weeks, then for the next 3 weeks the family's income does drop again; yes.

Mr. DUNCAN. If I can just follow this up a little bit further.

What's the current placement rate with the Employment Service counselors now?

Dr. PACKER. About 3 million out of 15 million.

Mr. HILBURN. Do you mean of the people we see, or the potential if more funding were available?

Mr. DUNCAN. Let's say the people that you see. The people who are registered and who come in.

Mr. HILBURN. Many people are never even seen because there isn't staff or money to even bother to call them in.

Mr. DUNCAN. These are people that register?

Mr. HILBURN. Yes. The WIN appropriation is very small.

Dr. PACKER. But you're talking about ES or WIN?

Mr. DUNCAN. ES.

Dr. PACKER. I think for ES it is 3 million placements out of about 15 million—so about 20 percent.

Mr. DUNCAN. And you anticipate that this program will be more successful, or do you anticipate that this rate will probably hold the same?

Dr. PACKER. I think the 3 million has a wide variety of people, including, for example, the food stamp population, for which I think $14 per person is spent.

That 20-percent figure is an average of many very different circumstances.

The figures on cost and the estimate of the 1.4 million jobs does not assume any rapid change in ES's placement rate.

The estimate in 1981 does not assume any substantial increase in the Employment Service's ability to place these people. Clearly, we hope that will not be the case. The reason is that we are targeting funds at the WIN level of expenditures, rather than at the ES level of expenditures, which is close to $100 a head rather than the $700 or $800 under the WIN.

Mr. DUNCAN. Mr. Hilburn, you had a comment?

Mr. HILBURN. Yes.

I think we should make it clear here that the President's bill leaves the decision of ES involvement to mayors and local CETA consortia.

The Federal Government will be giving money directly to the CETA consortia. If they want to involve the ES as a contractor to do this, then it would do that.

In Massachusetts, for example, we have 25 CETA consortia. They may have differing programs and different ways they want to go about this. So the questions of administrative costs and questions of effectiveness are very difficult to deal with when you're talking about that unknown.

We found from our ES–CETA partnerships at this point that it's a long, difficult effort to run things on a collaborative basis. We're hopeful that that process can get better and better.

Mr. DUNCAN. Thank you.

Mr. FOUNTAIN. I haven't finished questioning you, Mr. Hilburn, but I'll go to Mr. Smith since he looks so relaxed over there and wants to give us the benefit of his thinking, too.

Mr. Smith, in discussing the limited impact of the CETA program on AFDC recipients, you observed that welfare recipients constitute the toughest kind of spectral unemployment problem.

You suggested that to significantly increase its impact CETA would have to offer incentives to prime sponsors to spend the extra time and money to prepare these individuals for unsubsidized employment.

Are you referring to a training program like the 8-week job preparedness course developed by your organization in 1968 for chronically unemployed individuals? If so, I wonder if you would give us an estimate of the present per capita costs for such a course.

Mr. SMITH. To answer the first part of the question, no; I wasn't specifically referring to that. As to what kinds of incentives would be most effective in this particular case, I'm not certain.

But discuss for a moment the whole question of where priorities are in programs. If one were to make a priority out of placement of AFDC clients and one were to draw up regulations that would make it to the advantage of prime sponsors to do that—perhaps even to the exclusion of some other things that they're supposed to do—one would presumably then get a little more impact out of that.

I would assume that all we're hearing about welfare reform this is what we're really talking about—putting some real priorities on that. I would say that's the right direction.

My comments as to our program are these. In the first place, we don't run that program anymore. We turned that over to the community college, and I don't know whether we even have a per capita cost.

Do we have a per capita cost, Ed?

It is about $800 per person for the training costs now.

But we're not advancing this as necessarily the greatest program ever developed. We're simply saying that if you're going to be serious about AFDC, we'll have to be serious about some kind of peer group training.

I think that peer grouping is critically important.

One of the most difficult things is to take somebody like this and put them out on a job with no support from anywhere. Everywhere that's been tried, the results have been not too good.

But if you can get some support from the people who train you, or if you're in groups where you can support each other, you get better results.

Mr. FOUNTAIN. Did MDC do any followup studies to determine the permanence or the duration of employment for welfare recipients who took your 8-week preparedness course?

Mr. SMITH. We have had a continuing monitoring of the progress of these individuals, and we do have some data over a relatively long period of time. I can't produce any specific figures right now, but we could make that available if you would like.

Mr. FOUNTAIN. If you can, we'd like to have it for the record.

Mr. SMITH. We'd be glad to. We get reports periodically on that.

[The material referred to follows:]

HUMAN RESOURCES DEVELOPMENT PROGRAM
Statistical Summary for Year Ending
April 30, 1976

I. Participating Institutions:			46
II. Trainees Enrolled:			3,280
A. In-training:	483		
B. Non-completions:	552		
C. Completions:	2,245		
D. Completion rate:	80.3%		
III. Placements:			
A. Total trainees:			
1. Available for placement:			2,245
2. Placed:			1,430
a. Placed in jobs:		1,078	
b. Placed in training:		352	
3. Placement rate:			63.7%
B. Trainees with Exit Data:			
1. Available for placement:	607		
2. Placed:	424		
3. Placement rate:	69.9%		
C. Trainees with 3-Month Follow-up Report			
1. Available for placement	995		
2. Placed:	574		
3. Placement rate:	57.7%		
D. Trainees with 6-Month Follow-up Report			
1. Available for placement:	643		
2. Placed:	432		
3. Placement rate:	67.2%		
IV. Program Costs:			$2,797,742
A. Administrative costs (State Funds)		$1,974,002	
1. Per enrollee:	$ 601.83		
2. Per completion:	879.29		
3. Per placement:	1,380.42		
B. Trainee Stipends (Federal funds)		$832,740	
V. Performance Criteria:			
A. Aggregate increase in income:			$3,048,533
B. Aggregate decrease in public asst.			$ 856,827
C. State-wide adjusted earnback index			2.017

HRD PLACEMENT SUMMARY
TRAINEES ENROLLED DURING YEAR
ENDING APRIL 30, 1976

COLUMN CODE:
A: Number of Trainees
B: Number of Placements
C: Placement Rate

INSTITUTION	EXIT REPORT			3-MONTH FOLLOW-UP REPORT			6-MONTH FOLLOW-UP REPORT			TOTAL		
Anson TI	33	21	63.6	10	6	60.0	19	19	100	62	46	74.1
Asheville-Buncombe TI	55	22	40.0	53	26	49.0	51	26	50.0	159	74	46.5
Beaufort County TI	40	9	22.5	19	2	10.5	18	.5	2.7	77	16	20.7
Bladen TI	9	4	44.4	12	6	50.0				21	10	47.6
Blue Ridge TI	22	1	4.5	31	22	70.9				53	23	43.3
Caldwell CC & TI	11	11	100	27	23	85.1	38	30	78.9	76	64	84.2
Cape Fear TI	9	0	0	58	36	62.0				67	36	53.7
Carteret TI	16	1	6.2	15	9	60.0	16	6	3.7	47	16	34.0
Central Piedmont CC	65	4	6.1	81	30	37.0	10	3	30.0	156	37	23.7
College of the Albemarle	11	2	18.1							11	2	18.1
Craven CC	36	10	27.7	1	0	0	28	20	71.4	65	30	46.1
Davidson County CC	32	18	56.2	32	34	100	50	38	76.0	114	90	78.9
Durham TI	102	65	63.7	4	4	100	42	33	78.5	148	102	68.9
Edgecombe TI	24	5	20.8	19	13	68.4				43	18	41.8
Gaston College	22	10	45.4	21	17	80.9	12	10	83.3	55	37	67.2
Guilford TI	23	5	21.7	64	21	32.8	45	29	64.4	132	55	41.6
Halifax County TI	19	2	10.5	18	5	27.7	22	17	77.2	59	24	40.6
Haywood TI	15	13	86.6	13	13	100	21	19	90.4	49	45	91.8
Isothermal CC	22	15	68.1	28	22	78.5				50	37	74.0
James Sprunt Institute				28	12	42.8	18	13	72.2	46	25	54.3
Johnston TI	44	3	6.8	14	1	25.0				58	4	6.8
Lenoir CC	21	5	23.8	17	8	47.0	29	16	55.1	67	29	43.2
Martin TI	29	14	48.2	12	12	100				41	26	63.4
Mayland TI	19	12	63.1				10	10	100	29	22	75.8
Montgomery TI	30	10	33.3	8	5	62.5				38	15	39.4
Nash TI	25	10	40.0	19	16	84.2	17	11	64.7	61	37	60.6
Pamlico TI	23	3	13.0	12	2	16.6	9	6	66.6	44	11	25.0
Piedmont TI	30	10	33.3	21	16	76.1				51	26	50.9
Pitt TI	20	8	40.0	20	10	50.0	28	11	39.2	68	29	42.6
Randolph TI	14	4	28.5	17	6	35.2				31	10	32.2
Richmond TI	28	7	25.0	25	11	44.0				53	18	33.9
Roanoke-Chowan TI	17	6	35.2	15	9	60.0				32	15	46.8
Robeson TI				28	7	25.0				28	7	25.0
Rockingham CC	20	6	30.0	26	21	80.7	11	8	72.7	57	35	61.4
Rowan TI	26	13	50.0	23	13	56.5	15	11	73.3	64	37	57.8
Sampson TI	24	6	25.0	13	10	76.9				37	16	43.2
Southeastern CC	12	2	16.6	19	12	63.1	52	30	57.6	83	44	53.0
Southwestern TI	17	4	23.5	4	3	75.0	8	5	62.5	29	12	41.3
Stanly TI	45	33	73.3	14	14	100				59	47	79.6
Surry CC	4	0	0	34	22	64.7	7	4	57.1	45	26	57.7
T. I. of Alamance	26	4	15.3	9	4	44.4	10	9	90.0	45	17	37.7
Tri-County TI	22	2	9.0	16	10	62.5				38	12	31.5
Vance-Granville TI	9	2	22.2	43	29	67.4	7	7	100	59	38	64.4
Wayne CC	18	11	61.1	14	8	57.1	38	31	81.5	70	50	71.4
Western Piedmont CC	34	15	44.1	10	3	30.0	12	5	41.6	56	23	41.0
Wilson County TI	36	16	44.4	28	21	75.0				64	37	57.8
LESS NON-COMPLETION	-552											
TOTAL	607	424	69.9	995	574	58.0	643	432	67.0	2,247	1,430	63.4

HUMAN RESOURCES DEVELOPMENT PERFORMANCE SUMMARY

TRAINEES ENROLLED DURING YEAR ENDING APRIL 30, 1976

Institution	Trainees Enrolled	Trainees Placed	Placement Rate	Cost Per Placement (State Funds)	Increase in Income	Decrease in Public Asst.	Adm. Costs (State Funds)	Stipends (Federal Funds)	Adjusted Karnbach Index
Anson TI	62	46	74.1	851.11	50,043	1,103	39,150.96	27,272.00	.801
Beaufort County TI	77	16	20.8	2,540.62	84,446	8,533	40,649.88	19,440.00	1.174
Bladen TI	21	10	47.6	4,218.18	3,936	—	42,181.80		.656
Blue Ridge TI	53	23	43.3	1,755.11	79,273	52,325	40,367.52	22,832.00	3.738
Caldwell CC & TI	76	64	84.2	1,212.11	104,534	16,532	77,574.84	22,605.00	1.539
Cape Fear TI	67	36	53.7	1,275.77	133,391	34,388	45,927.84	16,832.00	3.769
Carteret TI	47	16	34.0	2,347.95	15,593	5,976	37,567.20	7,064.00	.751
Central Piedmont CC	156	37	23.7	1,003.79	65,938	6,504	37,140.24		2.302
College of the Albemarle	11	2	18.1	12,174.96	4,253	6,707	24,349.92		1.000
Craven TI	65	30	46.1	1,418.90	51,827	14,722	42,567.00	17,801.00	1.591
Davidson County CC	114	90	78.9	601.03	221,334	23,034	54,092.52	17,696.00	4.046
Durham TI	148	102	68.9	839.18	205,062	129,966	85,596.12	7,306.00	6.404
Edgecombe TI	43	18	41.8	2,149.19	50,030	22,203	38,685.48	21,296.00	1.945
Gaston College	55	37	67.2	1,070.28	31,992	11,646	39,600.48		1.690
Guilford TI	132	55	41.6	1,879.40	100,613	33,171	48,366.96	12,200.00	1.304
Halifax County TI	59	24	40.6	2,386.36	137,000	11,287	57,272.64	34,984.00	1.917
Haywood TI	49	45	91.8	946.04	126,526	34,196	42,571.80	2,760.00	5.054
Isothermal CC	50	37	74.0	1,101.14	84,847	22,785	40,742.28	25,280.00	2.320
James Sprunt Institute	46	25	54.3	1,554.67	453	46,754	[illegible]	24,056.00	2.236
Johnston TI	58	4	6.8	11,842.89	22,012	5,273	47,371.56	27,652.00	.624
Lenoir CC	67	29	43.2	1,761.61	135,758	11,201	51,086.64	20,984.00	2.431
Martin TI	41	26	63.4	1,438.70	148,322	14,102	37,406.28	19,636.00	1.342
Mayland TI	29	22	75.9	1,683.47	32,503	9,702	37,036.32		1.663
Montgomery TI	38	15	39.4	2,343.24	24,971	11,036	35,148.60	10,656.00	1.268
Nash TI	61	37	60.6	1,340.15	130,213	39,246	49,585.44	26,372.00	1.273
Pamlico TI	44	11	25.0	3,519.87	21,592	7,820	38,718.60	20,041.00	.762
Piedmont TI	51	26	50.9	1,402.93	53,443	11,960	36,476.28	27,308.00	1.400
Pitt TI	68	29	42.6	1,802.14	102,872	9,728	52,262.04	24,257.00	1.726
Randolph TI	31	10	32.2	2,944.58	- 10,543	- 4,354	29,445.84	17,530.00	- .502
Richmond TI	53	18	33.9	1,571.93	22,881	6,075	28,294.80	17,376.00	.896
Roanoke-Chowan TI	32	15	46.9	3,408.73	88,896	18,044	51,130.92	19,776.00	2.017
Robeson TI	28	7	25.0	1,310.69	2,554	3,774	32,767.20		.423
Rockingham CC	57	35	61.4	1,258.01	51,112	8,132	44,030.20	7,552.00	1.484
Rowan TI	64	37	57.8	956.15	46,363	13,877	35,377.56	14,072.00	1.229
Sampson TI	37	16	43.2	2,211.10	49,168	12,409	35,438.88		2.438
Southeastern CC	83	44	53.0	1,071.62	95,473	7,044	47,151.36	28,026.00	1.551
Southwestern TI	29	12	41.3	2,584.81	- 12,509	4,158	31,017.72	8,520.00	- .0008
Stanly TI	59	47	79.6	924.00	33,421	15,818	43,427.76	8,976.00	1.543
Surry CC	45	26	57.7	1,084.14	3,311	1,508	28,187.64	20,200.00	.162
TI of Alamance	45	17	37.7	2,031.35	34,939	28,982	34,531.00	12,204.00	2.608
Tri-County TI	38	12	31.5	2,483.53	788	3,670	29,802.36		.196
Vance-Granville TI	59	38	64.4	1,337.62	73,979	12,983	50,829.60	32,945.00	1.348
Wayne CC	70	50	71.4	831.95	50,596	34,067	41,597.28	6,445.00	3.180
Western Piedmont CC	56	23	41.0	1,676.29	9,507	19,182	38,554.56	19,616.00	1.151
Wilson County TI	64	37	57.8	1,285.68	145,090	16,814	47,570.28	35,030.40	2.367
* Asheville-Buncombe TI	159	74	46.5	907.82	140,102	45,694	67,178.76	98,340.00	1.669
TOTAL	2,797	1,430	51.0	1,380.42	3,048,551	856,627	1,974,002.00	821,740.00	87.949

Mr. FOUNTAIN. How promising an approach is it to invest substantial amounts of money in preparing welfare recipients for unsubsidized employment, if at the same time large numbers of relatively well-educated middle-class women and young people are also entering the labor market in competition for the available jobs?

Mr. SMITH. I think that question, if I understand it correctly, really relates to a larger question which really is, how much is the private sector going to absorb in the future? I would be happier asking than answering that question. [Laughter.]

I do think this: What we have been talking about as public sector for many years, involves a great deal of must-do work in this country. The day care problem is just one tiny piece of it. We could go up and down the line.

Now whether private enterprise or public enterprise is the answer to that problem, I think the problem has to be answered one way or another.

I think that the answer is to indeed create those jobs and indeed to do that work. That seems to me to be the only way to go about this.

The private sector heats up and wants people and it will get them. I think everything that we've heard from Dr. Packer today and everything we've read about welfare reform suggests that that's going to be one of the key things. There's not going to be any problem there. The problem is: How much heating up is the private sector supposed to do in order to absorb this increasing number of people who not only want but deserve and must have employment.

Mr. FOUNTAIN. I'm inclined to agree with what you've said.

I note that you are optimistic that prime sponsors can develop useful labor-intensive projects to provide public service jobs under the new title VI of CETA. Based on your observations so far, can you comment on whether any special conditions are necessary in a community if it's to be capable of sponsoring successful public service employment projects?

For instance, do you think every prime sponsor is capable of conducting a successful program?

Mr. SMITH. Yes, I think they're capable of it. I do think though that—let me make this one point clear.

We don't anticipate that when we get through with our study of the 30 primes we're going to find beautiful model projects running everywhere at all. There are a lot of things that operate against this.

The first and most important is the one that I mentioned at the end of my remarks about time. If you don't give people time to plan and think, you don't really give them the fullest opportunity to exercise what capability they have as a staff. That's a problem.

A second problem is that to some degree many prime sponsors really don't know where to turn to develop projects that really are innovative.

They may put out RFP's or take what the CPO sends in and make projects out of those. But what they really need more than anything else is some people who have been into this and have some ideas about it to come down and say: Here's some things you might try. This has worked here; why not where you are? Think about it; give it some thought. And the time to do that.

Put those together and, yes, I think the answer is prime sponsors generally can.

I'm always amazed at how capable the staffs are of the ones that we have visited all over the country. They really are good, and they can do these things.

Dr. **Goldberg.** Is one of the ingredients the insurance that the program will be a long-term one—that the money will be continuing, rather than turned on and off?

Mr. **Smith.** That would be a tremendous assurance that is not presently available. Yes, sir.

Mr. **Duncan.** I'd like to focus again on this question that we just slid over on the ability of the private sector to open up and provide the jobs.

I sense that there might be a disagreement—at least an implicit one—between the testimony of you, Mr. Hillburn, and yours, Dr. Packer.

In your testimony, Mr. Hillburn, you say that you have experienced great difficulty moving public service employee workers into suitable private sector jobs, and that you're concerned about creating a permanent class of low-wage public job holders in lieu of the present situation.

Dr. Packer, you mentioned in your testimony the establishment of about 1.4 million jobs and training slots in 1981 that you anticipate will be held by 2.5 million workers.

While there are not exactly twice that many jobs, you are anticipating that people are going to move to these public service employee jobs. They will hold these jobs for an average of 6 months. Then from there, I would assume, they would move into the private economy.

Is that a realistic appraisal? Can the private sector absorb these people this quickly, or are we likely to end up with Mr. Hilburn's concern of a rapidly expanding group of people who will simply be holding public service employment jobs?

Dr. **Packer.** These are fundamental questions that you ask.

I think a few things that should be kept in mind are:

First, the number of jobs in the economy are increasing. I think 7 million jobs have been added to our economy in the last 7 or 8 years. We've been adding jobs at the rate of 2.5 million jobs a year since the bottom of the recession 2 years ago.

So private sector jobs do open up.

Also, there is lots of mixing. People don't stay in one place forever. They move in and out of jobs. I think there may be something like 25 million different people taking jobs in any one year, including people who switch their positions.

I also think that to a great extent the private economy requires as many workers as consumers demand of their products. Sometimes when somebody is placed in a private sector job, somebody else who would otherwise have taken the job ends up, therefore, without a job.

So you think you're doing wonderfully, and yet you look at the net results and it still seems to be the same.

But you do have this mixing.

Now we think there are enough private jobs to get people out of the public sector jobs at a sufficient rate every year to keep the program from exploding under us and getting 2.5 million the first year and 5 million the next year.

Mr. **Duncan.** Sure.

Dr. **Packer.** On the other hand, we recognize that there is a limit, set by concerns over inflation and other things. And while you might have a permanent 1.5 million slots, you won't have a permanent 1.5 million people taking those slots for decades.

What you'll have is a situation where someone comes in and maybe stays 3 or 4 months, until the housing industry in the neighborhood recovers.

In some places in North Carolina—I got my doctorate at Chapel Hill, too, Mr. Chairman—the tobacco industry needs people, but it doesn't need people 12 months a year.

Since these jobs pay only the minimum wage, someone working in a tobacco-curing operation for some months, instead of falling back into unemployment and welfare, will work on these projects for 6 or 7 months. They may have to do that year in and year out. If the training is good, and they work out well, they may in fact acquire one of those permanent jobs in the tobacco industry that gives them upward mobility and stable employment.

I think we have to provide the opportunity for people to get out of this type of circumstance into those primary sets of jobs that are permanent and have upward mobility.

But we have to recognize that millions of people are being added to the labor force every year. The Secretary is especially concerned about the illegal aliens, or "undocumented workers," as a new group of people who are coming in and substantially adding to the labor force.

We find frequently that families first receive welfare when they break up. Generally, recipients are not on welfare forever.

There's a woman with children and her husband leaves and she begins receiving welfare. Sometimes it becomes a permanent way of life, and sometimes it becomes just a temporary situation until she can get trained and back on her feet and recognizes that she now has to support her family. And this program will be an opportunity to do so. But it will not end family breakups. There will still be people coming into welfare, but hopefully they won't be the same people; they'll be new people and there'll be a promise that they have a way to get out and it's not a permanent disaster to them. It's just a temporary setback that the program can help them get over.

Mr. **Duncan.** Mr. Hilburn, do you want to respond to that also?

Mr. **Hilburn.** I think there may be some possible views of difference. But we're looking into a crystal ball.

When you do that, there is always a possibility of differences.

Maybe I would just make some observations, rather than just answer the question directly.

First, in many of the northern cities—take Boston as an example—the CETA public service job holders, whether they be called welfare reform or whatever, have become a vital part of the city's management and an important cog in the delivery of services to the people of that city.

It is not in the interest of the cities to see rapid turnover, because it hinders the delivery of services. And that factor should be taken into account.

Second, the administration has moved off a hard and fast minimum wage position. It is now a minimum wage or slightly above.

We all know that there are substantial pressures to pay prevailing rates. That is what the Congress is enacting in the youth bill. That is what public employee unions will be very concerned about. That's a factor.

I think the key though, and I defer to my brother here who has many more credits in the field of economics than I, is your assumptions about what's going to happen to the growth of the economy.

I think the administration's assumptions of a growth so that the GNP rises rapidly enough that the unemployment rate falls to the neighborhood of 4.5 to 5 percent—you're talking about a different economy than you are in today's picture. We're just barely growing fast enough to keep up.

The question of how real is it to expect that we will be able to do 2 or 3 years from now what we obviously don't know how to do now—I'm sure we would do it now if we knew how to do it.

I think you point up a related problem. Let's assume that unemployment does not go down to the range of 4.5 to 5 percent. You have an interesting related problem of who and by what criteria picks and chooses among the people who are required to do public service jobs versus those who aren't because 1.4 million won't be enough.

Mr. DUNCAN. That's right.

I've not had a chance to go through the plan in any detail. Is there a contingency in the plan to handle just this possible occurrence?

I know there is always a problem. Administrations always have to be optimistic about the economy. I've never known an administration to ever estimate that unemployment is going to go up or anything like that.

So you build your programs based on your economic policies working. You have to have faith in them that they are going to work.

So a contingency plan is always a difficult thing. But we have to do it. But if you do it publicly people think that you really don't have confidence in your economic projections.

So there's a tendency to at least not to talk about contingency planning. And maybe you won't be able to say much about it here.

Except that I sense here a potential problem if indeed the economy does not improve. Indeed if there's been anything that seems to be confounding the experts, it has been economic behavior. What do you anticipate is likely to happen here to just this very kind of program if the economy does not improve?

Dr. PACKER. Let me try to address that.

First, if the economy is not strong enough, then the idea of trying harder to push people into the private sector is doomed to failure. If you don't think the economy is going to be as strong as we suggest, then the concern over the minimum wage or what have you is not as important as if you think that labor markets are going to be tight and the private sector is going to need more people than it would otherwise.

So the whole concern about trying to push people in the private sector—about making sure the public jobs are not too attractive—has to start with an implict assumption that the labor markets, in fact, will be tight.

There is no contingency plan in the welfare reform, but I think the welfare reform has to be seen as part of a comprehensive set of policies to deal with unemployment in the country. It is not the only answer; we think it is a big step and a very important step for a very important group of people—those who have the responsibility for families.

We are working on contingency plans. I think the sentiments you express are correct. There is always a tendency to say nothing will ever go wrong and so we shouldn't act as if something may go wrong and plan for it.

I think it's fairly safe to predict that the business cycle is not dead. We will, sometime—not in this administration perhaps but in the next—have other setbacks in the economy.

Whether the welfare reform jobs program should be the program that offsets that is one of the questions we're looking at.

CETA title II might be another place in which you'd have countercyclical public service employment with different types of criteria for rehire or different types of wage criteria that grows and falls as the economy grows and falls.

Countercyclical revenue sharing is another opportunity. The local public works program that we have is yet a third tool. Then there's the general policy of tax reductions and general macroeconomic policy to keep the economy on target.

Actually, for this year, it looks like the administration's growth for the 12-month period of the current year will come out to be approximately right—with a little more rapid growth in the front part of the year and a little less rapid growth in the latter part of the year.

But the progress of the economy over the last 2 years, as a matter of fact, has not been very far from what we've anticipated.

However, it won't continue like that. We're going to have surprises, and we'd better have contingency plans to deal with them.

Mr. Fountain. Going back to a question which I asked you, Mr. Smith, do the title VI projects which you've observed pay more than the minimum wage, or the prevailing wage for each community?

Mr. Smith. We haven't observed enough of them yet, Mr. Chairman, to give you anything that would be useful on that. We are really just beginning, and those figures are just starting to come in.

The one that I looked at personally, the answer to your question would be no.

Mr. Fountain. How long do you think it will take you to be able to form a mature opinion to that question?

Mr. Smith. We will file our final report at the end of this calendar year and the beginning of next year.

I hope before then we'll have a good, firm view for you on that.

Dr. Packer. Mr. Chairman, I think they're averaging about $3.60 an hour on the entire program of the buildup. We don't believe it's more than the prevailing wage, but, of course, it's clearly more than the minimum wage.

Mr. Fountain. Mr. Smith, there is a great deal of difficulty shown by the quality control data in identifying eligibles in an income maintenance program that is based on need.

Now that title VI eligibility is based on income, do you anticipate similar problems in regard to eligibility? Specifically, in your evaluation of progress, are you checking on the extent to which participants are actually eligible?

Mr. **Smith.** If by the extent to which they are actually eligible you mean are we trying to find out whether they were certified accurately, no, sir; that is not part of our study.

Mr. **Fountain.** Yes.

Mr. **Smith.** Now as to the question of how difficult it is to determine eligibility, very early on in the study I don't see any great signs of difficulty in this respect.

What has happened, I think, is that we are beginning to see that the timing of everything was such that the first things that have been done is that the projects have been established.

After that, the eligibility pools have been set up.

Now this may not be the ideal way. It does not seem to me to be the ideal way to do it.

But under the press of time, and with a lot of other—for every computer it is not so that there is readymade information that you can pull out, unless you know how to do it. It just isn't so that eligibility pools were sitting there for the Employment Service to whip out and send to the prime sponsor.

So I think there is a problem that may prove to be of some dimension.

Mr. **Fountain.** Mr. Hilburn, you indicated that the WIN program has been succesful, both in placing welfare recipients in employment and in its retention rates.

Your evaluation, as I noted earlier, is at odds with the assessment given this subcommittee by Dr. Levitan.

What level of funding, in your judgment, would enable the WIN program to reach its full potential? Would you state what you believe that potential to be in relation to the approximate size of the employable AFDC population?

Mr. **Hilburn.** Mr. Chairman, we are now working with perhaps a quarter of the registrant population. If one doubled the program, one would maybe be working with half the registrants.

I would not expect the same caliber results, obviously, with the second tier.

The Department of Labor funding formulas stress results and not need. So, therefore, one obviously picks the people that one is able to help with the least cost.

I think that it's clear that we could go—at least most of us—down to the first half with acceptable results. We would like to try to work with all registrants.

If you're talking about working with all registrants, I think you're talking about perhaps quadrupling the size of the program.

Many of the registrants, however, should not be serviced by WIN in the ultimate, so the unit cost would not be high perhaps when you get into the bottom half.

People with problems that might be better dealt with by the State vocational rehabilitation agencies often get into the WIN registrant pool. And those people should be serviced through that mechanism.

In rough figures, I would say that if you really wanted to try and service all the registrants, quadrupling—and that's a very rough estimate.

Mr. **Fountain.** In describing the WIN program in Massachusetts, you noted that in the three-quarters of this fiscal year, over

7,000 welfare recipients have gone into permanent unsubsidized employment at an average cost of $680 per person. What services does that include?

Mr. Hilburn. The services include a substantial amount of paperwork, unfortunately, as in any Government program. I would have to say that first.

WIN is not immune from the paperwork jungle.

The second, probably, biggest cost item in that $680 is what one might call labor market awareness. It is not full-fledged necessarily employment counseling as we would call it.

It is sitting down with the registrant and saying that we're going to talk about the labor market and we're going to talk about your career and what you've been doing. Many of them have worked in the past.

Developing a job search strategy and then actually going around—we have large numbers of people, and I'm sure that the employment security commission in North Carolina does the same. They go around and visit employers. And they carry the equivalent of résumés with them.

They may have 25 or 30 WIN clients in their briefcases. They talk to employers about hiring these particular individuals. That's the bulk of that $680.

Mr. Fountain. What wage rates did those jobs pay and what kinds of jobs were they predominantly?

Mr. Hilburn. The wage rates in Massachusetts are on the average on the underside of $3 an hour.

Most of the jobs are in the services sector. That is true in Massachusetts, particularly, because Massachusetts does not have the manufacturing base that it had 10 years ago.

It is also true, as you know, nationally that women, who are a big portion of the WIN program, tend to work very heavily in the services industries.

Mr. Fountain. Approximately how many of these 7,000 recipients have marketable skills and a good work record before entering the WIN program?

In effect, what I'm asking is: How many of those cases involved primarily, or exclusively, job placement services?

Mr. Hilburn. Answering your second one:

The bulk of those people are direct placements, without any other service. The vast bulk of them. Or, I should say, OJT where the service is provided by the employer under contract.

There is very little money in the WIN program for short-term skill training. That's one of the problems, as both the other witnesses have indicated to you.

For example, as I mentioned, in the testimony in the clerical fields or in the health fields, we have both recipients beating our doors down and employers beating our doors down. And we just don't have the money to do anything about it.

Mr. Fountain. Mr. Hilburn, has the Massachusetts program been what you would describe as a particularly successful one, or are your results typical of WIN programs in other States?

Mr. Hilburn. I think Massachusetts is regarded by the Department of Labor as a better-than-average WIN program. That may be because we've been working at it a little bit longer and harder than some of the other States.

What you see in the WIN data, however, is that many of the other States are now rapidly catching up with us. There has been a great turnover in top-level employment security staff.

The same things that were happening in the WIN program in Massachusetts are now happening in a lot of other States, and, again, particularly your State of North Carolina. We have seen a great improvement in all of them.

We're now seeming to find the right combinations of systems and managerial skills and political environments to do a very, very good job. Things are coming together.

Mr. FOUNTAIN. Would you care to comment on Mr. Smith's statement on page 6 that:

> The Employment Services offices are referral staging areas for a fraction of the community's available jobs, quite often with a predominance of secondary labor market jobs and those providing casual or seasonal employment.

Mr. HILBURN. That's true to a lesser or greater extent depending on the State that you're talking about.

We are rapidly working to change that, and that's why I mentioned to you about the food stamp program and trying to run it through our regular employment service operation did not seem to make much sense to us.

In Massachusetts, we are seeing substantial amounts of employers who are interested in working with the employment service.

We have, for example, 23 employers who are meeting with us now on a biweekly basis to develop strategies for getting greater use of the ES.

As a result, I think that we are already, in the last 4 or 5 months, starting to see more and better jobs listed through ES. We don't have a lot of them, but it's coming back.

I think the decade of the 1960's was a very traumatic one for ES. It lost the confidence of employers to be quite frank. A process of regaining that confidence and regaining that relationship—because obviously that's the end of the line for all Federal manpower programs. Whoever runs them is getting the jobs, which tie to the training.

Mr. FOUNTAIN. Mr. Smith, my last question dealt with title VI eligibility.

I would like to ask you this: What is your estimate of the ratio of eligibles for the new title VI program to the number of slots available? Is there a large pool of eligible persons clamoring for jobs, or are the prime sponsors trying to identify persons who are qualified to fill the jobs they have created?

Mr. SMITH. I don't know. But I will make this observation:

The particular site that I visited may present some interesting results. This is the consortium in Tidewater, Va., known as STAMA—Southeastern Tidewater Area Manpower Authority—which involves four major cities and four smaller jurisdictions—two counties and two small cities.

To answer your question, in one of those large cities, the answer would be that apparently there isn't a sufficient pool of eligibles—apparently, I say—to handle the amount of money that has been allocated to that particular city. That's Virginia Beach.

Whereas, in Norfolk-Portsmouth the obverse appears to be true. The eligible pool is considerably larger than the number of jobs.

I guess all I'm saying is that I suspect we're going to find a great deal of variety and variance in this question across the country.

Mr. **Fountain**. You spoke about the need for training as a component of public service employment programs.

Do you think the design of the new title VI program is as good as that of WIN, which has built-in supportive services?

Mr. **Smith**. I don't know. We've never studied WIN closely, and I wouldn't qualify as somebody, I think, who would make a comparison like that at all.

I do think that it is essential, as we go on in whatever we do, to tie all of our training into one kind of package.

I think the whole idea behind CETA is that if you can get your training systems together, you can bring other needs in and run them through.

I think that's essential.

So I would stay that if CETA is going to be the means by which we train, that there is where the emphasis and the money ought to go.

Mr. **Fountain**. Do you think the 1-year duration of title VI jobs is a desirable component of a program to aid those disadvantaged in the employment market?

Mr. **Smith**. That's a difficult question. There certainly is a good argument for saying: At the end of a year, you ought to be hopefully absorbed again in the private sector or you can get gainful employment.

Again, we're going back to big, major questions though—is the private sector going to do that? I don't know the answer.

From the standpoint of the community's developing public projects, it would be much more desirable if they had some long-term conviction that at least some kind of project money would be available to them. Whether the act is changed or not is not the important part.

Maybe those people move out into private employment, but the idea of having some continuity in public project development is very important to the communities. I think we're going to find that there is quite a demand for that.

Mr. **Fountain**. I might add that if any of you care to comment don't hesitate to join in. Within the limitations of time, we're going to try to finish by noon.

Dr. Packer, as far as I'm aware, the President's plan offers no incentives to employers to hire welfare recipients who are expected to look for private jobs before becoming eligible for a public job.

The subcommittee has received testimony that since 1971 the WIN program has offered employers the equivalent of a 20-percent tax credit for hiring people from the welfare rolls. Yet, we are told that only 25,000 persons were hired on this basis in 1976. Are you able to give us any information on why this incentive wasn't more successful?

Dr. **Packer**. I wonder if Merwin Hans would like to answer that.

Mr. **Fountain**. Any staff accompanying you are welcome to respond.

Mr. **Hans**. I am Merwin Hans, Director of the WIN program. Your observation on the participation rate of the tax incentive is very accurate. We have studied, since its enactment 4 or 5 years ago, this matter. It is not a significant thing in influencing employer behavior in hiring. The employers actually aren't collecting what they would be entitled to.

Of the 200,000 to 250,000 job entries that take place in the program each year, the majority of those would be private sector jobs and the employer would be entitled to a tax credit.

Our filings for certifications consistently run in the range of $30,000. IRS indicates that probably not more than half of that amount is claimed—which is a very small part of the totals the employer would be eligible for.

We have completed a study on this. Employers have several reasons for not claiming. One is that they are very leery about adding anything in their returns that might draw attention from IRS. They state this very frankly.

Another reason that we feel is very important is that the people who make decisions at the top of the corporation and people who do the hiring at some other part of the corporation don't really tie together.

The personnel man doesn't get his brownie points as a result of the tax credit that shows up only in corporate profits at the end of the year. So the real incentive is much more difficult to deal with in this way.

Overall though we have been unable to see that this has been a significant decisionmaking factor in terms of hiring welfare recipients by any employer.

Mr. FOUNTAIN. In view of this experience under the WIN program, what is your opinion as to the potential of using employer tax credits to help create private sector jobs for welfare recipients?

Mr. HANS. I think that it would require a very high level of visibility. I think it would require probably even an increase—although the 20-percent credit is a very strong credit. It's a credit against taxes.

It probably would require even more of a fiscal incentive. I think even then what you would draw off would be payment for many employers that would be hiring welfare recipients anyway. This is their normal labor market. Our population might be normally the kind of workers that they would be looking for. I don't really know. I think you could gin up higher levels of participation. But I really have some question as to the usefulness—overall—of this.

Mr. FOUNTAIN. Is it probable that the 20-percent tax credit is not well known by many segments of employers?

Mr. HANS. There is lack of understanding on it.

Mr. FOUNTAIN. How are they informed?

Mr. HANS. We do a great deal of informational work through our personal contacts with job development people. We have used IRS mailing lists to employers. We have published in journals of accountancy. That kind of thing.

We did a four-city saturation program just to test how far we could go with the present tax credit. We were able to increase participation rates almost double through a very, very intensive informational program and personal visits to every employer and every personnel officer in four cities.

But the overall effect was that it didn't have a lasting effect so far as participation, and the overall effect was still down at the 25-percent participation rate level. It was not something that employers jumped into in wholesale numbers, even when they were well informed on it and had available experts there that could advise them on how to deal with the tax credit.

Mr. **Fountain**. I think Dr. Goldberg has a followup question on that.

Dr. **Goldberg**. Is any special effort made by the ES people in the States to publicize the availability of this credit?

Mr. **Hans**. We furnish informational bulletins that are available. We print several million of them each year.

I have evidence of ES publications that rely very heavily on employer mailing lists, and they use frequently the points on the advantages of the tax credit. So, yes, ES does use this as a promotional device.

It is particularly attractive if you use it in conjunction with on-the-job training.

You may be eligible for a tax credit and also be eligible for reimbursement under on-the-job training under the provisions of our regulations.

Dr. **Goldberg**. Have you analyzed the distribution of the 25,000 persons hired in 1976 to see whether there is any State pattern?

Mr. **Hans**. I'm not sure I have for 1976. We have very good analysis and data on that; I'd be happy to furnish to you personally the studies so that you could extract for the record any pieces of that information that you might want to use.

Dr. **Goldberg**. It would probably be more helpful to us if you could supply just a brief statement for the record indicating what the data show—either for that year or some previous year.

Mr. **Hans**. I'd be happy to.

[The material follows:]

Tax Credit Report

Summary

A survey was recently completed for *An Assessment of WIN and Welfare Tax Credits*. The major purpose of the study was to determine how effectively the tax credit approach has worked in expanding employment opportunities for welfare recipients. Employers in 22 States were surveyed to determine their awareness of and experience with employment tax credits. Survey information was obtained through a telephone survey of employers who hired 709 AFDC recipients (557 WIN tax credits, 152 welfare tax credits). An additional 403 employers were surveyed who had received certification for either tax credit.

Demonstration projects were conducted in four cities (Minneapolis, Houston, Toledo and Atlanta) to enhance employer awareness of employment tax credits and to stimulate an increase in tax credit hires. Employer seminars were held involving department representatives within a firm involved in the hiring process. [illegible]3 firms were represented in these meetings.

Material in this summary was extracted from a series of reports prepared by a DOL contractor.

Knowledge of the Employment Tax Credits

Before a program can function as an incentive, potential users must be informed of it. Accordingly, this analysis begins with an examination of awareness of the program on the part of potential users.

Table 1 shows knowledge of the WIN tax credit by firms to which certifications have been issued (users) and Table 2 shows knowledge by firms which have not obtained certifications (nonusers). The data are displayed separately because two different survey samples were used. These data show that 78 percent of the users knew of the WIN tax credit, while only 52 percent of the nonusers knew about it.

TABLE 1

KNOWLEDGE OF THE WIN TAX CREDIT AMONG WIN USERS BY INDUSTRY

Knew of the WIN Tax Credit	Industry				TOTAL
	Manufacturing	Trade	Finance	Service	
Yes	88%	74%	82%	68%	78%
No	12	26	18	32	22
TOTAL	100% (209)	100% (117)	100% (28)	100% (154)	100% (508)

NOTE: Missing Observations - 49

TABLE 2

KNOWLEDGE OF THE WIN TAX CREDIT AMONG NONUSERS BY INDUSTRY

Knew of the WIN Tax Credit	Industry				TOTAL
	Manufacturing	Trade	Finance	Service	
Yes	53%	50%	68%	48%	52%
No	47	50	32	52	48
TOTAL	100% (136)	100% (103)	100% (22)	100% (115)	100% (376)

NOTE: Missing Observations - 19

Knowledge of WIN Tax Credit by Type of Industry

Among users, manufacturing and finance firms were more aware of the existence of employment tax credits than firms in retail and wholesale trade. Because of the practice of some WIN offices of sending certifications without a request from the employers, these numbers may merely indicate the relative attention shown these industries by WIN office personnel.

A better indication of the distribution of knowledge about the WIN tax credit is provided in Table 2 (nonuser) where it is shown that respondents in finance firms are more likely to say they know about the tax credit than is true of respondents in the other industry segments, but the difference is not significant. These figures do indicate that knowledge about the WIN tax credit is not more widespread in one industry than it is in any other.

Knowledge of WIN Tax Credit by Size of Business

While there is no relationship between industry classification and knowledge of the WIN tax credit, there is a direct relationship between the size of the firm and knowledge of the WIN tax credit among both users and nonusers. As Table 3 shows, 86 percent of WIN users with 100 or more employees knew of the tax credit at the time they hired their WIN employee as compared with 69 percent of employers with fewer than 25 employees. In the nonuser group, 69 percent of the large employers knew of the tax credit, while 45 percent of the small employers knew of it (Table 4).

Again, the incidence of knowledge among users may indicate that WIN personnel are more attentive to the larger firms than to the smaller, or that larger firms have better information systems. Table 4 does show, however, that the larger firms are more likely to know about the tax credit in any case. This is probably because larger firms have more specialists, and because they receive more attention from information sources of virtually all kinds.

Knowledge of WIN Tax Credit by Source of Information

Table 5 shows the frequency with which various sources of information are mentioned by respondents when asked how they learned about the WIN tax credit. Most mentions, by far, are from the State Employment Services or WIN offices, with scattered mentions for remaining media. In the case of nonusers, the public media have a relatively large number of mentions. This may be because, in cases of uncertainty, public media are the best guess. If WIN or ES is the most mentioned source of information, it tends to support the hypothesis that the efforts of these offices may be the strongest determinants of use.

TABLE 3

KNOWLEDGE OF THE WIN TAX CREDIT AMONG WIN USERS BY SIZE OF BUSINESS

Knew of the WIN Tax Credit	Number of Employees			TOTAL
	Less than 25	25-99	100 or More	
Yes	69%	77%	86%	77%
No	31	23	14	23
TOTAL	100% (203)	100% (163)	100% (176)	100% (542)

NOTE: Missing Observations - 15

TABLE 4

KNOWLEDGE OF THE WIN TAX CREDIT AMONG NONUSERS BY SIZE OF BUSINESS

Knew of the WIN Tax Credit	Number of Employees			TOTAL
	Less than 25	25-99	100 or More	
Yes	45%	50%	69%	51%
No	55	50	31	49
TOTAL	100% (203)	100% (116)	100% (71)	100% (390)

NOTE: Missing Observations - 5

TABLE 5

SOURCES OF INFORMATION ABOUT THE WIN TAX CREDIT

Source of Information	Tax Credit Users		Tax Credit Nonusers	
	Number	Percent	Number	Percent
State Employment Service or WIN	493	89%	124	31%
Internal Revenue Service	19	3	15	4
Employee	46	8	16	4
NAB	14	3	20	5
Welfare Department	13	2	14	4
Tax Accountant	38	7	23	6
Public Media	32	6	75	19
TOTAL	655	--	287	--

NOTE: Since each employer could give more than one response or no response to this question, the total number of responses is different than the number of employers in the sample. However, the percentages are calculated using the number of employers responding and therefore represent the proportion of respondents who mentioned each source of information.

One measure of the effectiveness of WIN and welfare tax credits is the extent to which they influence employers to hire AFDC recipients. In the employer survey a five-option question was used to determine the incentive value of tax credits in hiring decisions. Employers were asked if a tax credit was: a requisite condition, a significant factor, a contributing element, a remote consideration, or not a consideration in making the hiring decision. (An analysis of variations in numbers of certifications is provided in Appendix C).

Effect of WIN Tax Credit on Hiring Decisions

Only 11.1 percent of the employers in our sample who have received tax credit certifications stated that the WIN tax credit was atleast a significant factor in their hiring decisions. About 32 percent responded that it had been a contributing element, but not a major consideration; and about 57 percent said that it was either a remote consideration or not a consideration in hiring decisions (Table 6). These findings are consistent with the previous Illinois-Texas follow-up study in which nine percent of the employers interviewed considered the tax credit as significant in hiring decisions and 60 percent stated that it was unimportant.

A more specific question with respect to the incentive value of the tax credit was asked in the 3 month follow-up survey. The 303 employers who had received WIN tax credit certifications were asked if they would have made the WIN hire without the tax credit. Over 95 percent responded they would have made the hire without the tax credit. Thus, the tax credit was a prerequisite for only about 5 percent of the employers in our follow-up sample.

Since this was a subsample of the 557 employers initially surveyed, there was some question as to whether the responses were representative of the total sample. We examined the responses to the incentive question in the initial survey of this subsample of employers and compared them to the responses of those employers not in the follow-up survey (Table 6). No significant differences were observed between the responses of those in the follow-up survey and of those not in the follow-up. Therefore, responses in the follow-up subsample of employers appear to be representative of the total sample.

TABLE 6

EFFECT OF WIN TAX CREDIT ON HIRING DECISIONS

Importance of Tax Credit	WIN Tax Credit Certified Employers		
	Total Sample	Sample Follow-up	Not in Follow-up
Requisite Condition	1.5%	1.7%	1.3%
Significant Factor	9.6	9.7	9.6
Contributing Element	31.5	31.1	31.9
Remote Consideration	10.5	11.1	9.7
Not Considered	46.9	46.4	47.5
TOTAL	100% (527)	100% (289)	100% (238)

Extent of Use of the Employment Tax Credits

Neither the WIN nor the welfare tax credits are extensively used. The use of the WIN tax credit has approximated 25 percent of its potential. The number of employers who had received certification for the WIN tax credit reached a high of 22.4 percent of WIN job entries in FY 1974. However, certifications fell to 15.3 percent in FY 1975 and remained at that level for FY 1976.

TABLE 7

WIN JOB ENTRIES AND TAX CREDIT CERTIFICATIONS
FY 1973 THROUGH FY 1976

Fiscal Year	Individuals Job Entries	Tax Credit Certifications Per Year	Certifications as Percentage of Job Entries
1973	136,783	24,853	18.2%
1974	177,271	39,788	22.4
1975	170,641	26,042	15.3
1976	186,062	28,215	15.2

NOTE: WIN Reporting System

Of the average of 150,000 jobs in which WIN registrants are placed, we estimate that 114,000 employers had a tax liability (at a minimum 30,000 employers were government and other non-profit establishments, approximately 7,500 had no tax liability for other reasons). With the average usage of the tax credit at about 29,000 certifications per year, maximum usage is about 25 percent. Thus, about 75 percent of all employers who are entitled to a tax credit do not even obtain the certification needed prior to claiming the credit.

Use of the Welfare Tax Credit

The tax credit for AFDC recipients appears to have been used hardly at all. We estimate that not more than 1,500 welfare tax credit certifications were issued during the 15 month legal life of the program. Even given an 8 to 12 month operational life of the program, this amounts to no more than 100 certifications per month nationwide for a population of three million heads of households on AFDC--of which roughly 50 percent are defined as employable under existing legislation.

Use of the Domestic Employee Feature of the Welfare Tax Credits

The welfare tax credit feature to provide a tax credit to non-business (domestic) employers was scarcely used at all. We estimate that no more than 200 such tax credit certifications were issued during the entire life of the welfare tax credit.

Occupations

Clerical/sales and service were the primary occupations of AFDC recipients in the sample. 50 percent of WIN employees and 68 percent of welfare employees work in clerical/sales or service occupations. (Table 8). If jobs are classified by industry, findings are that welfare employees enter the different industrial classifications (manufacturing, trade, Finance, Service) at approximately the same ratio as the general work force. This is true even in view of AFDC employees being predominately female.

TABLE 8

WIN AND WELFARE TAX CREDIT EMPLOYEES BY OCCUPATIONAL TITLE

Occupation	WIN Employees	Welfare Employees
Professional	1.6%	.8%
Clerical/Sales	28.2	32.0
Service	21.4	35.9
Farm	.2	.8
Processing	8.8	11.7
Machine Trades	13.0	3.1
Bench Work	19.4	14.0
Structural	4.1	1.6
Other	3.2	0.0
TOTAL	99.9% (556)	99.9% (128)

NOTE: 1 WIN and 24 welfare respondents did not know or failed to answer this question.

Employer Attitudes

Questions were asked of employers to determine their attitudes about employment tax credits and to determine their reactions to welfare clients. About 77 percent of the employers certified for the WIN credit characterized welfare clients as having poor qualifications and poor work attitudes. About 69 percent of the employers certified for the welfare credit indicated the same. When asked about their satisfaction with specific employees, attitudes changed: over 80 percent of both employer groups (WIN, welfare) expressed satisfaction.

When nonusers of the WIN tax credit were asked why they do not hire WIN participants so they may become eligible for the WIN tax credit, the most frequent response was that they do not understand the WIN tax credit program. The most frequently mentioned suggestion for improving the WIN tax credit program was to provide better publicity for the program.

Other reasons for being a hesitant participant is that the tax credit requires changes in different phases of the hiring process, from the placement of the job order to the maintenance of records in order to prepare IRS form 4874-FY to claim the tax credit.

Characteristics of Persons Certified for the Employment Tax Credits

The proportion of WIN tax credit employees by age, education and race generally approximates the ratios of total WIN registrants and job entrants (Table 9).

It is important to emphasize that, although WIN participants are part of the AFDC population, the groups served by the two employment tax credits vary with respect to male/female participants. The WIN program includes a much higher proportion of males than does the AFDC population as a whole. This variation is reflected in the percentage of males in the WIN program (27 percent) and the percentage of males entering employment through WIN (35 percent). The AFDC population, on the other hand, is almost entirely female, which is reflected in the high percentage of females in our welfare sample (92 percent).

The proportion of males to females is also evident in the percentages of tax credit certifications issued. Males got 36 percent of the WIN tax credit certifications and only 8 percent of the welfare tax credit certifications. One reason for the low percentage of welfare tax credit certifications for males may be the requirement that an individual must have been an AFDC recipient for 90 days in order to qualify an employer for the welfare tax credit. No similar requirement is contained in the WIN tax credit program. Few men, even in states with unemployed father welfare provisions, have been AFDC recipients for more than 90 days.

TABLE 9

U.S. WIN REGISTRANT CHARACTERISTICS BY SELECTED COMPONENTS, FY 1974-FY 1976

Characteristics	Percent of Total U.S. FY 1974			Percent of Total U.S. FY 1975			Percent of Total U.S. FY 1976		
	Tax Credits	Job Entries	Registrants	Tax Credits	Job Entries	Registrants	Tax Credits	Job Entries	Registrants
TOTAL NUMBER	24,062	83,037	1,534,479	15,641	98,817	1,650,092	28,215	186,062	2,117,754
TOTAL PERCENT	100%	100%	100%	100%	100%	100%	100%	100%	100%
Sex									
Male	27	31	25	30	31	26	35	35	27
Female	73	69	75	70	69	74	65	65	73
Age									
Under 22	16	16	17	17	16	18	18	16	17
22-39	68	67	59	70	68	59	70	68	60
40-44	8	8	10	7	8	9	7	8	9
Over 45	8	9	14	6	8	13	6	8	13
Education									
Under 8	8	7	12	6	6	12	6	7	11
8-11	51	47	50	50	45	50	48	44	49
12	36	38	31	38	40	32	39	40	33
Over 12	5	8	6	6	9	6	7	9	7
Ethnic Group									
White	55	61	55	58	64	57	65	68	55
Black	43	36	42	40	33	40	32	28	39
Am. Indian	1	1	1	1	1	1	1	1	1
Oriental	<1	<1	<1	<1	<1	<1	—	—	—
Other	1	1	2	1	1	2	2	3	5
Spanish Surname	10	10	11	10	10	11	10	12	12

[illegible] 20, WIN Registrant Characteristics by Selected Components, 1974-1976.

Table 9 further indicates that individuals certified for tax credits: . (1) 70 percent are between the ages of 22-39, (2) 48 percent have between 8-11 level of education and (3) 65 percent are white.

Mr. Fountain. This is hard for me to understand, from my limited experience in my capacity as a Congressman and the contacts I have with people on welfare. Many people on welfare who are looking for jobs contact me. They don't like the idea—many of them—of being on welfare. They have dependents, and they want jobs that will pay them more money. Some of them have skills.

Technical training schools are helping in that direction in my State.

But with that valuable tax credit, it is hard for me to believe that so few employers have taken advantage of it.

Mr. Hans. There's another factor here that is very significant. It's very difficult to measure though. It's the stigma of being on welfare.

I am personally convinced that there are large numbers of employers who hire welfare recipients that don't know they are hiring a welfare recipient.

The recipient will go to great lengths to protect that information from the knowledge of the employer. So it may well be that the employer is not claiming the tax credit simply because he doesn't know he's hired a welfare recipient.

There are certain limitations as far as the amount of information that we, as an agency, can or will furnish to an employer about that particular aspect of their background.

So I'm sure that many welfare recipients will not divulge that particular piece of information, and I think probably very wisely because many employers will not hire welfare recipients. They have a very bad image in the minds of the employer, and I think certainly if I was on welfare I would not advertise that fact if I wanted to get a job.

Mr. Fountain. Dr. Packer, you stated that the President's plan does not make participation in the job program a condition for receipt of cash assistance; but that turning down a job without good cause will result in reduced cash benefits for an expected-to-work family.

I think it will help clarify the record if you compared the benefits that will be paid to such a family head if he or she took a job in the private or public sector, or, alternatively, refused to work.

Dr. Packer. Under the basic plan—and in a State that is not supplementing—the family of four would be entitled to $4,200 if they were not expected to work; or if they were expected to work and you couldn't find the job for them, even after the 8-week period.

Now during the 8-week period, or after turning down a job, the parent would lose the $1,900 associated with him or her, so that the payment would only be $2,300 instead of $4,200—a loss of $1,900—for refusing a job.

Mr. Fountain. What is the justification for giving preferential treatment in allowable benefits to the family head who finds a job in the private sector? Is that advantage justified if an employable recipient makes a real, but unsuccessful, effort to find a private job and then performs essentially the same kind of work in a public service job?

Dr. Packer. It is a difficult choice.

The other side of incentives is always punishment. We want to provide an incentive to move into the private sector. That means, in a sense, we have to punish those who don't find a private sector job, even if it's not their own fault.

So by eliminating the earned income tax credit, we discourage one from staying in the public sector and subsidized employment when private employment is available.

I think it's just an unavoidable part of an incentive scheme that wants to move people into the private sector.

Mr. Fountain. Mr. Brown?

Mr. Brown. Thank you, Mr. Chairman.

I wonder if any of you gentlemen could give me a statistic on how many people on welfare are continual welfare recipients? In other words, what is the percentage of people who just don't get off welfare and that are sustained on welfare on a continuing basis?

Dr. Packer. There has been a recent study of 5,000 American families. I think they find that maybe it's close to 20 or 25 percent.

What is happening is that the family situation changes. Children grow up, and women go to work if they can get around those day care problems—or if a women remarries. Those sorts of circumstances lead people off welfare.

But, generally speaking, in terms of being persistently poor or persistently on welfare, as the data seem to indicate, about one in five stay down on a permanent basis.

Mr. Brown. Do you all have any statistics? Does the Labor Department or anybody have any factual statistics on the length of stay on welfare? Do you keep that kind of record at all? Could you give me that?

You're talking about a sample study, I assume, made by somebody for a doctorate or something, but what about the Labor Department? What does the Labor Department have?

Dr. Packer. We do have data.

Mr. Brown. Or HEW or anybody or a State agency?

Dr. Packer. HEW has this kind of information, and we could furnish it to you.

Mr. Brown. Would you do that please?

Dr. Packer. Certainly.

[The information follows:]

> With respect to the welfare population, very few families are "permanently" on welfare, though extended periods of dependency are not uncommon. For 57 percent of the families on AFDC, the most recent case opening was more than 2 years ago; 47 percent of the cases opened more than 3 years ago; 35 percent opened more than 4 years ago; and 26 percent opened more than 5 years ago. In addition, 23 percent of the cases had a prior opening in the same State, indicating a significant degree of recidivism.

Mr. Brown. State agency—Mr. Hilburn? Do you have any records and does it vary from State to State? I would assume that if you're a very liberal State, as I understand Massachusetts is, in welfare payments and supplementing it with a lot of State money—or New York—that maybe it is tougher to get off welfare, because as you testified, you have to find a much higher paying job to make it attractive.

Mr. Hilburn. Our State welfare department would have those statistics.

I think there is another factor that you may have left out in your thinking, and that's the state of the economy.

Massachusetts is one of the 26 States that has an unemployed father program. That program goes up and down like a yo yo depending on the state of the economy. We've seen some sharp swings since 1969.

Mr. Brown. What I'm interested in is—peaked by something that you said—that there is a certain amount of social stigma attached to being on the welfare program. I represent an area which is not metropolitan. It's suburban, small city, small town. We're finding that in some of the communities the former stigma of being on welfare is absent; it's a career.

People are on welfare and their children are on welfare and when the old folks pass away there's another generation of the same family that moves into the welfare pattern. There seems to be no social stigma at all. They have accepted a caste situation in society where not only are they not able to get off perhaps, but they may not wish to get off. Why bother?

It is difficult to break that pattern. I'm curious to know to what extent that pattern is growing.

That would seem to recommend in that area a different kind of addressing of the problem than the problem of the guy who doesn't tell his employer that he was on welfare because he was embarrassed by it and the employer, therefore, does not take advantage of the incentive program that exists, simply because the guy says he doesn't want to be associated in any way. I just came into the welfare program temporarily to get assisted over a rough spot.

Do any of you have any comments to make on the advantages that we have given the welfare system in the recent increase in the minimum wage?

Does the Labor Department quantify that every time we raise the minimum wage? And the impact of that on the welfare program, and the difficulty of making that jump?

I must say that I am a Member of Congress who has voted both for and against increases in the minimum wage. I find that concept of raising the minimum wage and trying to get teenagers employed and underprivileged people employed and underskilled people employed are absolutely at contradiction with one another economically.

I can't see the social benefit of continuing to raise the minimum wage.

Do you have any statistics that relate what happens to unemployment and minimum wage?

Dr. Packer. I don't recall the numbers now. We do have some numbers that indicate a very moderate decrease in employment—and the growth of unemployment due to the increase in the minimum wage.

Mr. Brown. I hate to use this phrase, but I really am not talking about the total figures. I'm talking about your clientele.

Dr. Packer. No; we do not have it.

The increase in the minimum wage makes leaving welfare more attractive a proposition. If you get $400 or $500 a month on welfare, then a job paying $100 a week or $2.50 an hour is no better than the $400 you're getting.

Mr. Brown. So we would get all those people off welfare if we can get that minimum wage up to $4 an hour. Is that right?

Dr. Packer. No. I think what is really essential in the administration's program, if we provide an attractive enough income and provide a job—minimum wage at $4 an hour without a job, of course, like the butcher shop which sells meat at a very low price when it doesn't have any. And I think that's been some of the discussion about the minimum wage.

There is no guarantee. We don't guarantee a wage; we guarantee a wage rate. You may not get a $3-an-hour job. You may not get a $2.50-an-hour job. It doesn't make much difference.

So the President's program here suggests that we will provide a job—and we'll provide an income at the minimum wage. We'll supplement that income so that your employer doesn't get the subsidy, and you don't have to expose the fact that you're on welfare. You get the subsidy, but it's a much more attractive situation working than not working. The job is there, and we think people will react to those sorts of incentives.

Mr. Brown. In effect, though, that kind of breaks through the minimum wage barrier, doesn't it? Because you give a subsidy to the employer to employ somebody who has been on welfare and, in effect, you allow him to hire that man at less than he hires someone else in order to get somebody off welfare.

That would not seem to me to indicate a great social stigma to the welfare system, but rather our approach may be that the welfare program has certain advantages to it—to the employer.

I would like to make one philosophical comment and ask you to respond to it.

I belong to a group here in Congress that meets regularly and discusses where we're headed in the future. And back in the "good old days" when we didn't have a highly technological society and work was done primarily by the muscles of man rather than machines, we didn't have quite as much unemployment. When you have a lot of machines that do the work, then you are in effect requiring that some people don't work in the production sense. They may move to service jobs and other things. But in the production sense, they are not employed producing a product.

We have carved off segments of society as those who will no longer be associated with the production process. One of them is folks over 65. We give them social security and get them out of the work force.

Another one is people under 16. We prohibit them by child labor laws from competing with people in the work force.

Another one is blacks. They are stigmatized because of their skin color, and so they are not employed. And we, therefore, condemn a lot of them to welfare.

Women for a long time were considered to be part of the nonpaid work force. They stayed home and did the dishes and the diapers and cleaned the vegetables and those other things, but you don't pay them for that. They do it for love—whatever that's worth. [Laughter.]

I guess my question is this: The civil rights law has said that we are not going to stigmatize the blacks in that way, and that they should have an opportunity for work. We've said it with reference to women. We've accepted, as a result of World War II and social changes, the fact that women are in the work force on an equivalent basis with men; and we have now put that into law.

But are we—without segregating on race or sex or some other things—saying that there is a welfare portion of society that we're just going to keep and not really be able to address the problem?

Dr. **Packer**. That's a complicated question.

I do think that the idea that machines are making people superfluous is not true. The good old days included the 1930's, and there was of course considerable unemployment at that time.

Generally speaking, the wage——

Mr. **Brown**. I'd go back even further than that—back to the turn of the century when it was prudent for a farmer to have five healthy sons, because that's what made you rich. You had them work on the farm. Now the farmers all have zero population, just like everybody else, because it's cheaper to hire a combine than it is to raise three kids.

Dr. **Packer**. And they find their jobs in the local town for a great deal of the time.

Mr. **Brown**. Or rather they go to town and don't find a job.

Dr. **Packer**. That's right.

I think generally the standard of living in this country over the years has depended on the productivity of the average worker which, in turn, is dependent upon the use of machines to do manual labor—first, in agriculture and, second, in industry. And with the advent of computers in the office.

There are a group of people who are perhaps better off doing things that are not in the typical factory situation.

In a sense, the changing world and the emphasis on services may make their contribution more valuable.

I do not think that we're cutting off a sector of society and saying: You're superfluous.

In fact, the wartime period—World War II—when there was pressure on the economy, was when we brought these people in to a great extent—blacks and women, for example.

Mr. **Brown**. Because we had 12 million men in uniform and had something else for them to do.

Dr. **Packer**. That's right.

We need to find the economic equivalent of war—rather than the moral equivalent of war perhaps.

Mr. **Brown**. Let me speak about that for just 1 minute.

In Europe, the problem seems to be—with low birth rates in countries like Germany and Sweden and so forth—that there is a segment of society that is not within the nation but is brought from outside—the Spanish and Turks and Yugoslavians and others—who come in to do, for lack of a better term, menial work. Somebody to clean the septic tank—work the other folks don't want to do. They have been swept in to the West German economy and employed, fairly successfully.

Now that's intranational. We do that in this country with the Latinos. They come up and do the work that you can't get citizens to do. And now, under the present proposal, we're going to make them citizens automatically; and, presumably, they'll be able to work and pay their taxes so that they can help support folks that were born in this country who aren't doing the work.

Now that whole sequence of things really bothers me.

In a lot of my neighborhood, you have a lot of people on welfare. You have jobs that go begging—for the most part, the Turkish-Yugoslavian type jobs—and I mean no slur. But we don't have Latinos coming across the border available to us in Ohio, and so those jobs just simply go begging.

The guy who is working complains about the welfare situation and complains about the fact that he can't find anybody to paint his house.

What is the economic barrier that keeps the unfilled job from being filled and the nonworking person on welfare?

Dr. PACKER. We think the problem is the current policy and that the solution is the administration program.

We do find that when we open up jobs—not very attractive jobs—we get swamped with people who want them. Shoveling snow in Buffalo in the winter—there are almost riots of people who want those jobs. Fixing the problems that arose in New York after the riots. And, again, on those riots opening up a few—well, not a few—but a substantial number of summer jobs for youth. The kids came at 6 the night before to stay over for the jobs.

Mr. BROWN. Has anybody studied that to know where the wage level is that makes the distinction between folks lining up and wanting the job and not wanting the job?

Dr. PACKER. I don't know that it's the wage level. I think the jobs in New York paid $30 a day. Some of the others paid relatively low wages—maybe close to the minimum. It's a matter of information, transportation, and access.

Somebody says that if you go to Georgetown, you'll see help wanted ads in the windows in Georgetown; but not too many kids from southeast walk down the streets of Georgetown looking for a job. If that job was in the southeast, I'm pretty sure it would be filled.

We had a problem of employers moving out of areas in which there is a labor force excess.

So we think by insuring a job for them—and saying we're going to find a job for you—you're going to see that when you get out there and work, you're not very much different from the other people who hold down a job.

You can have the confidence, and we'll provide the training or whatever else is necessary to find you work. But there does not seem to be reluctance to work in the sense that when jobs are available, unemployment rates do go down—when the economy gets heated up.

Mr. BROWN. I'd like to ask two other specific questions. One is to ask you to supply me with a breakdown of this proposal for welfare reform versus the proposal which was last voted on in Congress—I think about 1971—the so-called family assistance plan proposed by the Nixon administration which passed the House and died in the Senate because the liberals thought it was too demeaning for the people who were on welfare and the conservatives thought it was too generous.

And then I'd like to ask Mr. Hilburn to make such comments or to get somebody from the Massachusetts welfare department to make such comments as you can for me on the 60-minute program of about 1 month ago on the welfare situation in Massachusetts. Are you familiar with that?

Mr. HILBURN. Yes; that was a summer rerun of films that were made approximately 3 years ago about a program that no longer exists.

Mr. **Brown**. That really is a summer rerun. I'm surprised I didn't see it a couple of summers ago—the last two summers that they ran it.

Mr. **Hilburn**. It was about employable recipients of general relief. In the first 6 months of Governor Dukakis's administration, Massachusetts went through a very traumatic fiscal crisis, and that program was abolished at that time.

Mr. **Brown**. The program was a traumatic experience for me—not so much because of the attitude of some of the welfare recipients who were, as one guy said, making $20,000 a year off the welfare program, but to some extent the attitude of those people who were administering the program who said that as far as they were concerned, these folks had every right to rip off the taxpayer; that they were having tough times; and if they were on welfare, they'd do exactly the same thing.

For the most part, I don't think this reflects the attitude of social workers in my area who come to me and say: The program rules that you designed are lousy. Don't complain to me—or don't let me hear you make those speeches—about the welfare programs unless you can tell me which of the administrative requirements you put on us who must administer the program you support and which you oppose.

We have put a lot of administrative requirements on that program to make it a program that cannot be successfully administered.

Would you agree with that or not?

Mr. **Hilburn**. I would obviously have to defer to the people who are more knowledgeable on welfare. We are on the employment service side.

I have the general impression that what you say is correct.

I also have the general impression that in Massachusetts the comments of those social workers from the State welfare agency that were on that film presentation with Mr. Wallace are [illegible] reflective of what I see today in the way of welfare workers who are cooperatively working with our WIN teams.

Mr. **Brown**. You're telling me that you have reformed the program in Massachusetts from what it was.

Mr. **Hilburn**. We abolished that program.

Mr. **Brown**. But now would you do one other thing for me then? Do you have recommendations with reference to the guidelines that are set by the Federal Government on Massachusetts administration of the program that should be changed?

You see I'm inclined to think that we probably have, based on the personal testimony to me—not to this committee—of some of my social workers and welfare people in my district that part of the problem is what the Federal Government requires.

Would you have your welfare department make some specific recommendations to us about how those guidelines ought to be changed? Just by changing guidelines, we could improve the program and maybe encourage people to get off welfare and get a job.

Mr. **Hilburn**. We'd be very happy to.

We did make recommendations here for changes in WIN in the testimony.

But we would be happy to also make changes on the income payment side—recommendations for changes.

Mr. **Brown**. Thank you, Mr. Chairman.

[The material follows:]

THE COMMONWEALTH OF MASSACHUSETTS,
DEPARTMENT OF PUBLIC WELFARE,
Boston, November 15, 1977.

Hon. L. H. FOUNTAIN,
Chairman, Intergovernmental Relations and Human Resources Subcommittee, Committee on Government Operations, House of Representatives, Washington, D.C.

DEAR REPRESENTATIVE FOUNTAIN: Mr. David Hilburn of the Massachusetts Division of Employment Security has advised me that you wish some comments on Public Welfare policies that can act as barriers to welfare recipients leaving the welfare rolls for employment.

There is no doubt that some policies do act as deterrents to recipients who wish to enter the employment market. Here are some of my thoughts in this matter:

1. Disregard of earned income

The current "$30 and ⅓" formula can often result in delaying a recipient's exit from the welfare system because the greater the amount of an individual's earnings, the greater the amount of those earnings that is disregarded.

2. Work related expenses

As there is no real dollar limit on work related expenses, there is a substantial opportunity for abuse of this element, and because of this lack of a dollar limit there is no fixed point of exit from the system. These factors relating to work related expenses are especially true in the area of child care deductions. It is not unusual for such expenses to approach the total earned income of an individual.

3. The 4-month limit to the extension of medicaid benefits to AFDC recipients whose cases are closed due to increased earnings

This limit can lead individuals to remain on welfare in order to retain their medicaid benefits. This is especially true for those who are unable to secure group medical insurance coverage. This factor has often been reported as a reason for reluctance to accept employment, especially when the spouse of an unemployed father may be pregnant.

4. Housing assistance

Recipients who reside in public or subsidized housing are often hesitant to leave the welfare rolls because of the knowledge that this will probably result in a substantial increase in their rental payments.

5. Allowance for an unemployed father to refuse employment that pays less than the family's assistance grant

This factor has a negative effect on motivating unemployed fathers to accept employment. This is most noticeably true in families with four or more dependents.

I hope that these comments are useful to you in your attempts to bring meaningful reform to the welfare system. If I can be of any further assistance, please do not hesitate to contact me. I can be reached at (617) 727-3939.

Sincerely,

STEVE KANE,
Assistant Commissioner, Assistance Payments.

Mr. FOUNTAIN. Mr. Wydler?

Mr. WYDLER. I don't know that much about the President's welfare program, and I don't have the slightest idea whether it's going to be successful or not if it is put into effect. I think probably most people are in the same position.

Wouldn't it be sensible, if we really want to try a program like this, to try to take it and put it into effect in some limited area—a sensibly cohesive area—and try to see how it worked instead of just throwing it full-blown upon the Nation and hope for the best. Wouldn't that be a sensible way to proceed in something like this?

Dr. PACKER. If we were starting from scratch, I think that's very much the case.

The title VI buildup under CETA right now, we think, provides a substantial testing ground for the jobs portion of welfare.

We're dealing with a clientele which, as the year moves on, will be more and more like the clientele we anticipate under welfare reform. We're dealing with the sorts of projects that are very much like the projects we expect people in this jobs program to perform.

Mr. Wydler. I know. But I'm talking about the totality of the program. These things interact too. So you can take one little part and try it somewhere and say: We got another 50 people jobs. I've seen that game played; 52 agencies all take credit because one man got a job, and everybody's claiming credit for it. So I don't think that tells you very much of anything.

If you want to try a program of this kind, one part depends on what the other part is doing. To take the whole so-called program that we're presenting and put it into effect in a limited area so that if it doesn't do a darn bit of good—which may well be the result—nobody is really going to be able to tell you; we would find out. We've done it nationwide and now we have to unravel a whole nationwide program again.

You'd be willing to give up on a test program; we'll never be willing to give up on a nationwide program. You know that.

Everybody will defend it—the people who proposed it. You'll have to fight it to the death to ever get rid of it.

I'm just suggesting that once we do those things, we build in the lobbies to continue them forever and everything else. The only way it seems to me you can come up with any kind of sensible test is to go into some limited area, whether it's the Boston, Mass., area or something like that and put the program into effect and test it. If it doesn't work, then people will be willing to say that it didn't work, and we'll try something else.

That's one thing that bothers me as a legislator. We always try to take all these things without really knowing if it's going to work or not.

Once we pass these programs nationwide, I don't think we have any chance to unravel them after that.

Mr. Brown. Jack, would you yield?

Mr. Wydler. Just a minute. Let me ask a couple of questions first and then I'll yield.

That to me would be a sensible way to approach these things—and not just a part of it. When you only do a part, you're never sure how that's going to work as part of the entire program that you're proposing.

I don't think that's an adequate test.

Dr. Packer. Mr. Wydler, first, of course, there are not 50 jobs. On titles II and VI we have half a million jobs as of the beginning of this month.

We will, in fact, run tests on saturating some areas in which we try to provide jobs for all family heads with children, which is the essential portion of the program. One is close to being signed in Minnesota right now.

The existing welfare programs, in a single State, are not so very different—especially in States that have an unemployed father program—or so radically different from what we're proposing that with the jobs program and those existing welfare programs in place, we will not, in fact, be testing——

Mr. Wydler. Where is that taking place?

Dr. Packer. It's in Minnesota.

Mr. Wydler. Well, why don't we call it a test and see how it works?

In other words, what I think you people are doing in this is hedging. You're going to sit back and test it, and if it comes out good for you, you're going to tell us about it; if it comes out bad, you're going to forget about it. Isn't that really correct?

Shouldn't we make it a test so that we know what we're doing in the first instance?

Dr. Packer. I think we're testing out components of the program.

When one builds an airplane, you take an engine and test that.

Mr. Wydler. That's exactly what I'm suggesting.

Dr. Packer. I think we've tested many pieces of it. Eventually you have to put the thing together and fly it. We have tried pieces, and we think they work.

We do have a situation in which millions of people are in the welfare situation now.

Mr. Wydler. Are you telling me now that Minnesota's experience will be a test of the program?

Dr. Packer. It will test out certain components of what we're doing to be sure that we're doing them in the right fashion.

But the overall system, we think we have enough data and enough information and enough experience with the welfare system, which has been here since the mid-1930's, to know how best to improve it. It is not as if we started——

Mr. Wydler. In my judgment, that statement is illogical—to tell me you're still testing out components but you have enough experience to change the entire system. Now that isn't even a logical statement.

If you're not sure of the components, you certainly can't tell me what the end result of the totality is going to be. That just doesn't even follow logically.

You say it's so good, you know it's going to work. Fine; maybe it will. I hope it does. But the way to test that is to put it into operation somewhere and see how it works.

We will be in a state of mind then that we'll be willing to admit defeat. We'll never admit defeat if we put this program into operation nationwide. You know that. Nobody is going to admit that they did the wrong thing—not in those circumstances.

So I'm suggesting to you that if you really want to give the people and the legislators a fair chance to make a judgment, that's the way to approach it.

Give us some proof, instead of just all the hopes and the dreams and the theories about how it's going to work. Give us some proof.

Dr. Packer. I think that if you tested it in one State, the people would suggest that that doesn't prove the case for another State. If you tested it in one year, somebody would say the unemployment rate is higher and that, therefore, that test would not prove the case in another year.

Mr. Wydler. I agree with what you're saying, but it would be a lot better than anything we have today.

Dr. Packer. We have been testing the negative income tax. Experiments were started 6 or 7 years ago. We have sufficient data off that which tests out a considerable number of the sorts of things we are doing.

Mr. Brown. Can you get those specific examples though? I think that's what you're after.

Mr. Wydler. Yes. If you can supply that.

Dr. Packer. There are shelves and shelves of results on the negative income tax experiments that were done in Seattle and Denver and North Carolina and New Jersey and elsewhere.

There has been a period of testing.

What we're really testing now is the scope. We think the buildup under title VI with half a million slots indicates that you can't do it even on a large scale.

Mr. Wydler. Well, obviously, I'm not going to sell you on the idea. But I really still feel that, logically speaking, that's the way we would really have some true evidence of what we're getting into. We'd know whether it has a fair chance of working. If nothing else, it would be far superior than the proof that we're presented with now which seems to me to be a bunch of hopes and concerns that things will get better if we change them around. I'm not convinced they will; they might—I don't know.

In your statement, I'm confused by the paragraph which begins: "The jobs will be in useful public services which are not normally performed by regular public or private sector workers." Would you give me an illustration of a job like that?

Dr. Packer. In very many communities, for example, an aged person who lives at home often if he needs some help has no alternative but a nursing home. We could provide home care for the elderly now. That is done in some communities, but it is certainly not a widespread activity.

Mr. Wydler. You mean like a nurse who comes into somebody's home to take care of them?

Dr. Packer. No. It need not be a nurse. There are many elderly people who can't get out to shop or get to the doctor and need transportation and help with their shopping or help with preparing their meals, for example. They do not need a trained nurse at those high rates of pay, but they could often manage with the help of a person with less training.

Mr. Wydler. We have programs like that now. They are Government programs to help people. They have all kinds of fancy names for them—the ones where they visit them at their homes and call them every once in awhile to see if they are all right. And things like that.

So those are performed. I don't know if they are public or private.

Dr. Packer. That's again like the testing. That's the testing that looks like it works in the communities where it's been tried. It is certainly not the resources.

Mr. Wydler. Maybe I'm wrong, but it just seems to me that when you say "jobs not normally performed by regular public or private sector workers," you've eliminated all the jobs that anybody has seen any need for. All we're left with is something that nobody really wants or needs. You're going to have to dream up things to fit that category.

Dr. Packer. I think there are many people in this country today who are working at jobs in the private sector and making very good salaries. Those jobs weren't there 10 years ago.

Every year this economy creates new jobs that are unlike past jobs.

In my own experience, going through the country and through communities, it suggests that there are things that need to be done that are not done now; and that it's not impossible to create new jobs and new products; that it's not a static situation

Mr. Wydler. Assuming that what you said is understandable, how would a person that fit a job like that be able to comply with the very next paragraph where you say:

"Every effort will be made to emphasize job activities which help participants acquire useful skills."

If you get them off into areas that nobody has really thought of or wanted, what is the useful skill they're going to learn in those kinds of jobs?

Dr. Packer. For example, again in the private sector, once something is done, it becomes more profitable to do so. A person who does that home care work could then get a job in a nursing home. They go into the nursing home and are asked if they have any experience in this situation. They say: I've never done any medical care or nursing care, but I have worked with old people. I know how to cope with them. Under those sorts of circumstances, I would like a job in your nursing home.

That is an area that is expanding.

Some years ago if somebody started a nursing home, they would say that nobody had ever done this before and nursing home places for the elderly was not a real activity and everybody takes care of their old folks in their own homes. They would have been wrong.

Investors and people who look for jobs and new opportunities—we think these people can also look for new opportunities. Those who only look back at what's been done and assume that that is what is always going to be done frequently miss out on some opportunities.

Mr. Wydler. You may be right, but I just think it would be very hard to take a person who is unskilled and without a job and give him some kind of job that is not being performed by anybody in the public or private sector and then after getting that job for a certain period of time telling him: Now you're trained; go out and find a job in the regular economy. I can't think of a harder way to make it for that poor, simple—and obviously the most disadvantaged—person we have in our society.

You're really putting him behind the eight ball. I think it's impossible for him to make any progress with that kind of system.

Dr. Packer. Let me give you one hard example.

The energy situation changed the value of people who know how to do weatherization. It was something that was not being done—weatherizing homes.

Mr. Wydler. What wasn't being done?

Dr. Packer. The weatherizing of homes that was not being done on the scale now.

Mr. Wydler. It's just a question of degree. There's a need for more of those people, yes.

Dr. Packer. So the CETA projects took people—three or four people with no experience and one person with some experience in the construction industry—and put them together in teams; and they went out and weatherized the homes of elderly poor people who could not afford to do the weatherization on their own.

After some period of time of doing that, that welfare person could now go out and go to a private contractor and say he was experienced now in weatherizing homes. Can you hire me?

Mr. Wydler. But that doesn't follow what you're saying.

Those jobs were performed by regular people in the private sector. We had a lot of people working in the weatherization business. You don't think that it was discovered by CETA I hope.

That's been going on for a long time. I had my home insulated years ago and maybe some others here have also. There's nothing new about that concept. That's an old, old concept. Just because we happen to talk about it a little at the Federal level doesn't mean it was just discovered. It's an old thing.

I really don't understand that language. Maybe it's there because you're trying not to make anybody mad at you; but the fact of the matter is that, whether you like it or not, when you get some of these people jobs, you're going to have to rub somebody wrong in the private or public sector. You're going to be in competition with them whether you like it or not.

Dr. Packer. That what we're testing out with the half million jobs we have now.

Mr. Wydler. I don't think there's any way you can avoid that.

Thank you, Mr. Chairman.

Mr. Fountain. The subcommittee is going to have to stand in recess now.

I would like to say that we still have a few questions, Dr. Packer, which we'll submit to you in writing for your response to complete our record this morning.

I want to thank all of you for coming. You have been extremely helpful in making our record and serving our purpose here.

The subcommittee will resume this set of hearings on October 4, at which time we will take testimony from representatives of HEW, the General Accounting Office, and the Urban Institute.

The hearing will begin at 9:30 a.m. in this same room.

We stand in recess until that time.

[Submissions to additional subcommittee questions follow:]

QUESTIONS AND ANSWERS SUBMITTED FOR THE RECORD

Question 1. Does the President's plan take into account the fact that the AFDC population is not a static one? We have received testimony to the effect that of the 3.4 million cases on the rolls in January 1975, 1.5 million were closed that year. Moreover, it has been said that about one-fifth of those families were able to get off welfare because of employment or increased earnings. How does the 1.4 million new jobs called for by the President's plan relate to this apparently normal turnover of families on the AFDC rolls?

Answer. The normal turnover of families on AFDC is indicative of the fact that for a large fraction of the AFDC population, welfare dependency is a transitory situation. The Employment Opportunities Program is specifically designed to further minimize long-run reliance on cash assistance in three ways. First, by developing and encouraging regular economy employment among low income persons; second, by providing services to improve the employment potential of such persons; and last, by establishing a "job floor" for families with children through the creation of almost one and a half million subsidized job and training positions.

It is important to note that these resources will not be directed exclusively towards the welfare population. Indeed we estimate that less than one-half of the job participants will be AFDC recipients. For these families, the jobs program will provide a meaningful avenue of escape from welfare dependency. For the non-AFDC participants, the jobs component of welfare reform is intended to serve as an employment alternative to primary reliance on welfare during times of temporary need.

Question 2. (*a*) What evidence does the Labor Department have to support the feasibility of creating 1.4 million useful public jobs through prime sponsors? And to what extent will your Department be directly involved in this job creation effort at the local level?

Answer. The best evidence to support the feasibility of creating 1.4 million useful public jobs is the recent expansion of CETA PSE.

Three years ago the CETA package contained 50,000 slots. With the onset of the recession, this level was increased to about 300,000 positions in 1975 and remained at this level until the Spring of 1977. Under the President's economic stimulus package, the goal is to increase the level of CETA PSE to 725,000 slots by early 1978. This latest increase in CETA is primarily targeted on the long-term unemployed and on those with low incomes.

The scheduled pace of the stimulus expansion has been substantially exceeded. By the start of September, over 500,000 jobs had been created compared to the less than 300,000 in the middle of May. This increase of 205,000 jobs is about 37 percent greater than the scheduled build-up of 150,000 jobs.

Despite the rapid build-up of stimulus jobs, there are absolutely no indications that we are beginning to exhaust the kinds of useful services that could be produced. In fact, many of the stimulus jobs, particularly the Title VI project jobs, are similar to those anticipated under the Better Jobs and Income program. At present, there are more than 164,000 participants enrolled in 22,000 projects, many of which are being paid at or near the projected subsidized wage. Depending on the particular needs of the communities, projects have been developed in such areas as teachers' aides for handicapped children, home health care aides and survey workers to assess weatherization needs.

Some prime sponsors have chosen to create projects which fill their communities' unmet needs for recreation facilities. Jobs have been created at or near the Federal minimum to hire employees for playground and playmobile supervisors and related jobs. Other communities have used this as an opportunity to create projects for the handicapped. Other areas that we expect to provide particularly meaningful jobs under the new program include aid for the elderly and disabled including persons to provide homemaking assistance, maintain telephone communication with shut-ins, provide meals-on-wheels and perform other jobs which do not require high skill levels and would not undermine existing wage structures.

In effect, then, the CETA stimulus experience represents a pre-program build-up for the Better Jobs and Income program. Many of the jobs are similar to those expected under our welfare reform program and the client population for CETA stimulus jobs, which are focused on long-term unemployed and public assistance recipients, closely resembles the expected population for welfare reform jobs. We will of course continue to monitor this build-up closely, but the experience to date gives us confidence that the proposed welfare reform jobs program can be effectively implemented.

The Federal role

Under welfare reform, the Department will establish performance standards and conduct rigorous monitoring to assure that those entitled to participate are receiving both adequate and continuous service and that there is compliance with statutory restrictions on wage levels, hours of work, non-substitution for regular workers, and maintenance of effort requirements. The Federal Government may also, as one State official suggested, undertake to identify and publicize successful job creation ideas and projects which might be undertaken in other communities.

To the extent necessary to assure the delivery of services in the area served by any prime sponsor whose plan has been revoked by the Secretary of Labor, the Secretary is authorized (if no other eligible prime sponsor is designed) to carry out directly the delivery of such services, or to make grants to or enter into contracts for such purpose with public or private nonprofit agencies or organizations in the same manner and to the same extent as if the Secretary were the prime sponsor for that area.

Question 2(b). We have heard that there has been a considerable substitution effect under the Title VI program—that is, substituting Federally-subsidized workers for a local government's own work force. If this is true, how will the President's plan prevent such substitutions?

Answer. Subsidized jobs under welfare reform will involve work that is not now being done in the public or private sector. Also, the program will be targetted on workers with fewer skills and less education than workers usually hired in regular public jobs. These two factors should substantially limit the possibilities of replacing regular workers with workers hired under the welfare reform program. In addition, there will be maintenance of effort requirements and explicit constraints on the ability of local officials to supplement wages.

Question 3. The new public service jobs in the President's welfare plan will offer regular work all year round at the minimum wage, plus, presumably, fringe benefits. Do you think low-wage, private jobs will be competitive with the public service jobs? How much of an incentive will the earned income tax credit be in stimulating private employment since it provides at most $32 monthly for a minimum wage job (at $2.30 per hour)?

Answer. The Employment Opportunities Program is designed so that comparable employment in the regular economy generally provides both immediate and longer term economic advantages. The most immediate incentive is the 8.6 percent increase in take home pay resulting from the EITC when working at the minimum wage ($2.65/hour in 1978 dollars). Of more long term significance is the potential for upward mobility and the development of career ladders in the private sector. No such advancement opportunities exist within the public service jobs created under welfare reform. We think these real financial gains will stimulate private sector employment among program participants.

Question 4. Mr. Smith testified that public service jobs often have been too demanding for welfare recipients. How will the President's job program deal with this problem?

Answer. The answer to this question is complicated only because it is not clear what is meant by "too demanding for welfare recipients." If the statement implies that welfare recipients have limited job skills, then the low skilled, minimum wage jobs to be provided under welfare reform should meet this objection. If the statement is referring to the fact that most heads of AFDC families are females, then several points should be made. First, females already constitute 37 percent of the CETA Title VI participants and 43 percent of the general labor force. Second, women are moving increasingly into non-traditional employment and the program should allow for this. Third, a large proportion of the public service jobs will be in the service sector where "physical demands" are limited. Lastly, if the statement implies that employment for welfare mothers is too demanding because of child care responsibilities, the program addresses this issue also. Single parents with pre-school children are not required to accept employment; single parents with children 7–13 must accept employment only during school hours; and all single parent families with children under 14 are allowed a child care deduction for purposes of determining the cash assistance benefit.

Question 5. Would you please summarize the evidence for your statement on page six that "* * * simply extending cash assistance to intact families will probably not help and may even hurt family stability."

Answer. The evidence for this statement was most recently summarized by John Bishop, Research Associate at the Institute for Research on Poverty, in his testimony before the Welfare Reform Subcommittee on October 14, 1977. Bishop concludes that "the best available evidence is that expanding eligibility for welfare to include two-parent families will increase marital splits rather than decrease them." This evidence is provided by the negative income tax experiments. In all three of the experiments that have published such evidence, the measured rates of marital dissolution were larger in the experimental group receiving extended cash assistance than in the control. A copy of Bishop's testimony is enclosed.

WRITTEN TESTIMONY TO THE WELFARE REFORM SUBCOMMITTEE OF THE COMMITTEES ON AGRICULTURE, EDUCATION AND LABOR, AND WAYS AND MEANS OF THE U.S. HOUSE OF REPRESENTATIVES

(By John Bishop, Research Associate, Institute for Research on Poverty, University of Wisconsin; Co-Principal Investigator of a study of The Potential of Wage Subsidies)

NOTE.—This research was supported in part by funds granted to the Institute for Research on Poverty, University of Wisconsin-Madison by the U.S. Department of Health, Education, and Welfare pursuant to the Economic Opportunity Act of 1964 and by funds from MPRE Grant No. 51–55–73–04 from the Employment and Training Administration of the Department of Labor. The opinions expressed and any remaining errors are solely the responsibility of the author.

II. WELFARE REFORM AND THE FAMILY

A highly advertised objective of the executive branch's welfare reform package is to "provide strong incentives to keep families together rather than tear them apart, (1) by offering the dignity of useful work to family heads and (2) by ending rules which prohibit assistance when the father of a family remains within the household." (White House Message, August 7, 1977)

In this section I'll examine whether these claims are supported by the results of recent social science research on marital stability. The conclusion is that while there is strong empirical support for the first claim, there is none for the second. In fact, the best available evidence is that expanding eligibility for welfare to include 2 parent families will increase marital splits rather than decrease them. This evidence has been available for only 18 months and was published in the American Journal of Sociology only last May. It, therefore, has not yet been subject to the full scrutiny of the research community. Because these findings are so surprising, some respected analysts doubt their validity. Decisions about income maintenance policy are being made now, however. Consequently Congress and the public must now be made aware of the current state of social scientific knowledge about the likely effects of universal income maintenance on marital stability.

If keeping families together is an objective, the policy implications of these findings are that President Carter's emphasis on providing jobs rather than stipends is correct and needs to be carried further. Intact families with an able bodied worker should be aided by providing jobs and by raising their after tax earnings not by putting them on welfare.

The jobs component of the Program for Better Jobs and Income (PBJI) is designed to provide an effective guarantee of employment to heads of families with children. This is to be accomplished by creating 1.4 million public service jobs and assigning heads of families with children priority in any queue that may develop in the application for these jobs. Tax relief would be extended to families with low earnings by liberalizing the earned income tax credit. Workers in private and nonsubsidized public employment would continue to receive the current 10 percent credit on earnings up to $4,000 a year and would, in addition, receive a 5 percent credit on earnings between $4,000 and the family's tax threshold (roughly $9,000 for a family of four). If implemented, these components of PBJI will accomplish the double purpose of eliminating involuntary unemployment and raising the take-home pay of workers in low and middle income families with children. The results of half a century of social science research support the proposition that accomplishing these objectives will help keep families together.

A. Evidence on the effect of unemployment and the earnings of husbands and wives on marital stability

The classic studies of the impact of unemployment on marriages are the studies of adjustment to long term unemployment during the 1930's done by Bakke (1940) and Komarovsky (1940). A pattern of progressive deterioration in the husband's authority and involvement in family ritual was common. When family heads were able to obtain work relief, the process of distintegration was arrested. Bakke concluded, "The job of the head of the family provides not only an income but a social role for which there is no adequate substitute in a working class culture."

One of the best ways to study marital disruption is to follow a large sample of couples over a long period of time and examine how characteristics measured early in the marriage relate to later disruption. Two large nationally representative data sets of this type currently exist: the Panel Study of Income Dynamics (PSID) and the National Longitudinal Survey (NLS). Hoffman and Holmes found that in the PSID when no other variables are controlled marital dissolution measured over a seven year period is negatively associated with the husband's hourly wage and average hours of work per week. When, however, a great number of demographic and other economic variables were controlled including home ownership, savings, hours worked and unemployment, the wage rate no longer had a consistent effect. Hours worked had an important though curvilinear effect. Husbands working 48 hours per week were found to have the lowest split rate with significant increases in splitting occurring for those working more than 60 or less than 40 hours a week. Husbands who had recently been experiencing unemployment or high job turnover were more likely to experience a marital dissolution. Owning a home and having substantial savings lowered the probability of separation. These results suggest that it may be the stable life style (as reflected by owning a home and having substantial savings) that a husband's high wage rate can make possible that leads to stable marriages.

Sawhill et al. analysis of PSID data obtained similar results. If the husband in a poor or near poor family had experienced serious unemployment problems, the probability of a separation over the next four years rose by more than 16 percentage points. A typical low income white family's probability of dissolution rises from 7.6 percent to 24 percent. The typical low income black family's probability of dissolution rises from 12 percent to 30 percent. Declines in income also cause statistically significant increases in marital dissolution.

Most studies find that women who earn more in the labor market are more likely to become separated and divorced.[1] Sawhill, et al., for instance found that in the PSID each $1,000 of earnings by the wife raises the percent of couples that separate by one percentage point.

Cherlin's study of marital separations of 30 to 44 year old women in the National Longitudinal Survey also found that marriages are more stable when the husband works throughout the year and/or has a high wage rate and less stable when the wife has a high wage rate. Moore's (1977, p. 80) study of marital splits over a four year period using the National Longitudinal Survey's sample of young women (14 to 24 in 1968) also found the likelihood of a marital separation was higher when the husband's income was low or when the share of the family income provided by the wife was high.

The evidence for the proposition that families whose head experiences unemployment are more likely to split seems quite strong. Will, however, a reduction in unemployment caused by an economic boom or government created jobs reduce rates of marital dissolution as well? The doubter may argue that the correlation of unemployment and marital splits across individuals is due to some third factor (for example, a violent temper) which is not controlled in the studies cited above. For example, if violent tempers are the cause of the observed association, giving jobs to the unemployed will not save their marriages. A similar counter argument can be made about the observed associations between wives working and marital splitting.[2] One way to test this omitted factor hypothesis is to examine whether there is an association between the unemployment rates and male earnings opportunities in the community and indicators of marital disruption in that community. Presumably the incidence of men with the key omitted characteristics (such as a temper) is not the cause of or highly correlated with variations across cities in the unemployment rate.[3] Therefore, an association at the community level of higher unemployment rates, lower male wage rates, and higher female wage rates with higher rates of marital dissolution provides strong evidence for the existence of a causal relationship. Three studies of rates of female headship for large geographic areas are available and all find that unemployment, and the ratio of male to female are quite important.

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[1] Numerous studies have also found an inverse relationship between the occupational status of a male and his probability of becoming or having been divorced. The Duncan SES score of the husband's occupation at time of marriage has a strong negative relationship with marital instability (Bumpass and Sweet). Holding age at marriage, education and religion of both spouses, whether wife's parental family was intact, wife's residence (region and farm) while growing up, previous marriage, and time since first marriage constant at their means, a decrease in SES of the husband's job at marriage from the top to the bottom quintile raised the probability of a split from 0.07 to 0.17 for whites and from 0.17 to 0.37 for blacks. While studies that relate marital instability to the occupational status of the husband are consistent with the hypothesis that raising the husbands after tax earnings will encourage stability, they do not prove it. Evidence is needed from studies that relate husbands' income to marital stability while occupation is controlled. Evidence on this issue is provided by Cutright (1971). He found that the likelihood that an ever married male is not living with his first wife has a strong inverse relationship to income and is unrelated to occupation when income is controlled.

[2] It might be that women who are unhappy in their marriages often obtain a job as a way of maintaining their options. It might also be the case that the personality characteristics that lead women not to work also reduce the probability of a marital split. If these preexisting conditions are the real cause of the association between wives working and marital disruption, the relationship should disappear when indicators of marital disruption for metropolitan areas are correlated with labor market conditions that draw women into the labor market (i.e., high female wage rates).

Proportions of women heading families and rates of marital dissolution are not available by geographic area, however, so we must work with the best proxy available. It is not necessarily a disadvantage to analyse variations in rates of female headship because they are of great intrinsic interest. Besides reflecting differences in marital dissolution rates of families with children, they reflect differences in remarriage rates, differences in the likelihood of having a child out-of-wedlock and keeping the child, and differences in the likelihood for the mother to live with her own parents.

Honig's studies (1974, 1976) of rates of female headship in 44 metropolitan areas found that controlling for the characteristics of the AFDC program, rates of female headship of whites and blacks in 1960 and 1970 fall when males earn more and rise when females earn more. Higher unemployment rates increased the female headship rates of whites in 1970 and of both races in 1960. Using states as observations, Minaik and Goldfarb (1976) obtained similar results for male and female wage rates. The unemployment rate had a positive coefficient but it was not statistically significant.

Strong impacts of unemployment rates and male wage rates on marital instability have been found in Ross's study (1975, p. 216) of female headship rates in the low income areas of 41 cities in 1970. Holding the male/female wage ratio and AFDC program characteristics constant, she found that a doubling of the median weeks of male unemployment raised white female headship rates by 55 percent. Rates of female headship for black women did not respond to the unemployment variable. A ten percent rise in the median income of intact families lowered rates of female headship by 7 percent.

The final piece of evidence on the impact of local unemployment rates is provided by Caldwell's study of dissolutions using the young NLS women (Moore et al., 1977, p. 303). He found that living in an area with high unemployment caused a statistically significant rise in the marital split rate. The yearly rate of marital disruption which averaged 6.7 percent in this sample is predicted to rise to 7.7 percent if the local unemployment rate is 2 points higher than average.

What then will be the impact of the jobs component of the welfare reform package? The jobs component will assure all families with children a job that will yield a minimum income 13 percent above the poverty line of a family of four. Since these jobs will carry low wage rates their primary impact will be on unemployment not on wage levels. All of the studies which entered a local unemployment rate (Caldwell, Honig, Ross, and Minarik and Goldfarb) have found that generally tight labor markets are associated with fewer marital dissolutions or lower rates of female headship.

The stabilizing effect of a general reduction in unemployment will be accentuated by the fact that "if there is more than one adult in the family, this job or training slot will go to the family's principal wage earner. The principal wage earner will be the adult who had the highest earnings or worked the most hours in the previous year." (HEW News Release, August 6, 1977.) In two-parent families this will typically mean that the husband will be provided the job. Priority is given to providing principal wage earners a job because it is felt that families whose principal wage earner is unemployed have the greatest need of help. There is only a limited number of job slots; therefore, giving all wives a similar priority in the queue would result in some of the neediest families not receiving any job offer. By giving priority to ending the unemployment of family breadwinners, the jobs program will have the additional effect of stabilizing marital relationships. The jobs program will not be drawing wives in two-parent families into the labor market and thus destabilizing female independence effects will be minimized. The impact of the liberalized earned income tax credit on marital stability is harder to predict. This issue will be discussed at the end of the section on cash assistance.

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[3] Similar assumptions are required for the city and state level to provide an unbiased measure of the effect of higher female wages. Unmeasured personality characteristics that when individuals are being compared might be the cause of an observed association between wives who work and (marital separation) must not be the cause of city to city variations in the ratio of men's and women's wage rates.

B. The effect of making welfare payments to intact families

The second aspect of welfare reform that is supposed to encourage families to stay together is the expansion of coverage to include intact families with able bodied adults. Currently most low income two parent families are ineligible for the Medicaid and AFDC support that similarly situated one parent families receive. It is not unusual for the earnings of a father to be less than the value of the Food Stamps, AFDC and Medicaid his family would become eligible for if he were to desert them.

While it may seem only logical that these perverse incentives should increase martial instability, the empirical evidence for the proposition is by no means secure. Honig (1974, 1976) found a positive relationship between the level of the AFDC payment and rates of female headship for blacks and whites in both 1960 and 1970. The effect is not statistically significant for blacks in 1970, however, and its size is small. A doubling of the AFDC payment increases the number of female heads by only 6 percent. Ross's (1975) study of female headship in low income neighborhoods has also found positive and statistically significant impacts of AFDC payment level on blacks but not on whites. Studies that use states rather than metropolitan areas as observations [Minarik and Goldfarb (1976) and MacDonald et al.] have found nonsignificant negative effects of higher AFDC payments on female headship.

Analysis of PSID data has also failed to produce conclusive results. Hoffman and Holmes find that in states with high benefit levels the dissolution rates of low income couples rise from 3.8 percent to 10.6 percent. This effect is substantially larger than those found by anyone else. Sawhill et al.'s logit analysis of disruption during the first four years of the PSID finds a statistically significant but small effect of AFDC payment level.[4] While two thirds of the studies find a positive effect of AFDC payment level on marital instability indicators, only one of these studies finds the effect to be large in recent data. Thus while there is some support for AFDC being a marriage destabilizer, there is very little support for its being a powerful destabilizer.

Even if providing female headed families with an adequate level of support does cause an increase in marital instability, it does not follow that "ending rules which prohibit assistance when the father of a family remains within the household * * * will * * * keep families together" (HEW News, August 6, 1977). There is no empirical support for this assertion. The best existing evidence suggests exactly the opposite will occur.

In many states two-parent families with an unemployed head are already eligible for cash assistance from the AFDC-UP program. The primary purpose of this program is to reduce the incentive for families to split up in order to get AFDC. There is, however, no evidence that this program has reduced marital instability. A study of the AFDC caseload in Alameda County, California [Wiseman, 1977] found that 22 percent of a 1972 sample of mothers in two-parent families receiving AFDC-UP assistance were on AFDC for absent or disabled fathers before the end of a year. Wiseman reports that almost all of these transfers from AFDC-UP status to AFDC status were due to a desertion.[5] These rates of dissolution are substantially higher than those experienced by two-parent low income families that are not on AFDC-UP. The yearly rates of dissolution in the control groups of the Income Maintenance Experiments were 4 percent in New Jersey and 5 to 10 percent in Seattle/Denver. The four year dissolution rates for poor and near poor couples in the PSID were 7.6 percent for whites and 12.1 percent for nonwhites.[6] Since the families that apply for AFDC-UP are not a random sample of all low income families, this data does not prove that AFDC-UP caused the higher disruption rates. These results are, however, consistent with the findings of other research to be presented shortly that extending welfare to include two-parent families will increase rather than decrease marital instability.

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[4] The linear probability models estimated using OLS get nonsignificant positive coefficients. Logit models are better for testing hypothesis, however, so the statistical significance of the coefficient in the logit model is given greater weight. Part of the reason for the smaller effect in Sawhill et al.'s analysis is the addition of a set of four regional dummies for each race. This reduces the independent variation of the AFDC payment variable and therefore the statistical significance of coefficients that will be obtained on the AFDC variable. It would be desirable to control for other characteristics of location like wage rates. Entering dummies for region, however, gives no clue as to what it is about the region that causes observed differentials.

[5] Some transfers from AFDC UP to AFDC occur because one of the parents develops a disability. This source of overestimating the split rate is likely to be more than counterbalanced by the failure to measure splits occurring among the 46 percent of AFDC UP families whose case close within the year. A separation that does not result in a mother returning to the welfare rolls somewhere in California does not get counted.

Since many states do not have an AFDC–UP program, another way of examining the effect of AFDC–UP is to enter a dummy variable for the presence in the state of an AFDC–UP program in models predicting aggregate indicators of marital disruption. Three studies of female headship rates [Ross, 1975; Minarik and Goldfarb, 1976; Honig, 1976] have done this. Since the number of families receiving AFDC–UP aid is small even in the most liberal state, large impact is not to be expected. Where estimated separately by race, impacts are positive for blacks and negative for whites. The Minarik and Goldfarb estimate of AFDC–UP impact for both races combined is positive. In the three studies only one of the coefficients is statistically significant, however. This coefficient [in Honig, 1976] implies that female headship amongst black's increases by 15 percent where there is an AFDC–UP program. As expected the results are not conclusive.

The best evidence on the likely impact of extending cash assistance to two parent families on marital stability is provided by the negative income tax experiments. In these experiments negative income tax programs that are very similar to the cash assistance component of the Program for Better Jobs and Income were actually tried out. Families were randomly assigned to experimental and control groups. This is a major advantage. It means that if statistically significant non-artifactural differences are found between the experimental and control groups, it is possible to make the inference that being placed on the plan caused the difference. While better than any other kind of evidence, the experiments are not perfect. Ambiguities of interpretation may arise from small sample size, differential attrition of families from the experiment, and imperfect methods of measuring marital dissolutions. The families are promised only 3 or 5 years of payments and are studied only for that period of time. Consequently, predictions about the short and long term effects of a permanent program are necessarily extrapolations. After the basic findings of these experiments are presented, the likely direction and size of the biases created by these and other problems will be assessed.

Analyses of marital splitting have been published for three of the four experiments. In all three experiments the measured rates of marital dissolution were larger in the experimental group than the control group. The unadjusted dissolution rates for the control and experimental groups of each of these experiments are presented in Table 1. For whites in the Seattle/Denver experiment, for instance, 10 percent of the control group and 17 percent of the experimental group's marriages had dissolved within two years; an increase of 70 percent. Families on the most generous plans apparently did not experience an increase in the rate of marital dissolution. The cash assistance component of the Program for Better Jobs and Income has a low guarantee, however, so it is the effect of the low support plans in the NIT experiments that hold the greatest immediate policy interest. In all three experiments, it was the families on the least generous support plans that experienced the largest increases in the rate of marital dissolution. Except for Chicanos families on the low support plan appear to have doubled their dissolution rate. These generalizations are based on the support level multipliers presented in Table II that provide estimates of the proportionate response of dissolution rates when the pre-experimental

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[6] Adjusting for the higher split rates that are typical of California would not eliminate the discrepancy. The proportion of white 35 to 44 year-old ever married women who are separated or have at one time been divorced is 39 percent greater (0.263/0.189) in the San Francisco SMSA which includes Alameda County than nationally. For Blacks this proportion is 28 percent greater (0.497/0.388) than nationally. Raising the PSID four year split rates by these percentages would still leave the predicted four year split rate for low income couples at 10.5 for whites and 15.5 for nonwhites. About 44 percent of Wiseman's AFDC–UP sample was black.

characteristics of the family are controlled. For the low payment plan the increases in marital split rates are statistically significant in both of the urban experiments. They are not statistically significant in the Rural Income Maintenance Experiment because the low incidence of marital disruption in rural areas and the small sample size combined to produce only a limited number of splits to study.

TABLE 1.—DISSOLUTION RATES IN THE NEGATIVE INCOME TAX EXPERIMENTS

	Whites	Blacks	Spanish	Rural (3 yr)
Seattle, Denver (2 yr):				
Control (percent)	10.0	15.6	14.5	
Financial (percent)	17.0	23.3	17.6	
Approximate number of Obs. in control and financial	1,400	1,200	500	
New Jersey (2 yr):				
Control (percent)	7.5	11.6	13.9	4.8
All financial (percent)	6.7	14.5	20.1	5.7
Low support (percent)	13.8	23.3	25.0	11.9
Medium support (percent)	7.2	10.7	[illegible]	4.1
High support (percent)	4.1	15.2	14.5	3.0
Number of control Obs	159	155	108	336
Number of financial Obs	209	193	144	280
Denver (30 mo):				
Control no IRF (percent)	11.2	26.7	13.0	
Control with IRF (percent)	13.4	16.4	20.6	
Low support (percent)	24.8	31.2	25.9	
Medium support (percent)	15.8	29.8	18.4	
High support (percent)	10.0	19.0	13.8	
Number of control with IRF Obs	119	98	92	
Number of financial Obs	333	247	335	

TABLE 2.—MULTIPLIERS FOR DISSOLUTION AND REMARRIAGE RATES

	Seattle/Denver, 24 mo						
	Whites		Blacks				
Support level	All	With children	All	With children	Chicanos (all)	New Jersey,[1] 36 mo (all)	Rural, 36 mo (all)
Dissolution of marriages intact at enrollment:[2]							
Low	[3]2.27	[4]1.77	[3]1.69	[3]1.67	1.37	[4]1.9	3.0
Medium	[3]2.00	[4]1.75	[4]1.85	[3]1.69	.81	1.3	1.14
High	1.32	1.03	1.45	1.43	.85	1.0	.85
Remarriage of those enrolled as female heads:[6]							
Low	.85		.99		[3].18		
Medium	.81		1.23		[4].22		
High	.54		.81		[4].11		
Remarriage of all female heads:[6]							
Low	1.30		1.29		[3].51		
Medium	1.10		1.71		[4].42		
High	.80		1.17		[5].22		
Expected proportion of women in a population like SIME/DIME that will be married living with spouse:[7]							
Control	.65		.34		.66		
Low	.55		.31		.35		
Medium	.54		.33		.48		
High	.53		.30		.36		

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[1] The multipliers for New Jersey combine the effects of support level dummies and the payment variable in the linear probability model of the full sample in table XII, p. 68 of Sawhill et al., 1975. Average weekly payments were $34, $15.30 and $7.70 for high, medium, and low guaranteed levels respectively.

[2] Marital dissolution equations contain controls for: Normal income (6 categories), city, log of marriage duration, wife's age, wife's education splined at 12 yr, wife's wage, husband's age, husband's education, husband's wage, wife/husband wage ratio, number of children of different ages, family on AFDC prior to beginning of experiment.

[3] $0.01 \geq p$.

[4] $0.05 \geq p \geq 0.01$.

[5] $0.10 \geq p \geq 0.05$.

[6] Remarriage equations contain all of the above variables except those that refer to the husband's characteristic.

[7] The steady state equilibrium proportion married is $m/m+d$ where m is the marriage rate and d is the dissolution rate. It assumes that the impact effect of going on program occurs in the 1st 6 mo and that the next 18 mo provide an estimate of the long-run change in rates of dissolution. Taken from table 3 of "Variation Over Time in the Impact of SIME/DIME on the Making and Breaking of Marriages" by Tuma, Hannan, and Groeneveld, February 1977.

TABLE 3.—A COMPARISON OF WELFARE REFORM ALTERNATIVES FOR 4-PERSON FAMILIES WITH 1 MEMBER EXPECTED TO WORK

Carter welfare reform				EITC alternative I			Alternative II		
Earnings	Cash assistance	EITC	Total income	Earnings plus EITC	Cash assistance	Total income	Earnings plus EITC	Cash assistance	Total income
0	$2, 300	0	$2, 300	0	$2, 300	$2, 300	0	$2, 300	$2, 300
$1,000	2, 300	$100	3, 400	$2,000	1, 400	3, 400	$1,500	1, 800	3, 300
$2,000	2, 300	200	4, 500	$4,000	500	4, 500	$3,000	1, 300	4, 300
$2,300	2, 300	230	4, 830	$4,600	230	4, 830	$3,450	1, 150	4, 600
$3,000	2, 300	300	5, 600	$5,440	0	5, 440	$4,500	800	5, 300
$4,000	2, 200	400	6, 600	$6,640	0	6, 640	$6,000	300	6, 300
$5,000	1, 700	450	7, 150	$7,240	0	7, 240	$7,140	0	7, 140
$6,000	1, 200	500	7, 700	$7,840	0	7, 840	$7,740	0	7, 740
$7,000	700	550	8, 250	$8,440	0	8, 440	$8,340	0	8, 340
$8,000	200	600	8, 800	$9,040	0	9, 040	$8,940	0	8, 940
$9,000	0	650	9, 650	$9,640	0	9, 640	$9,540	0	9, 540
$10,000	0	562	10, 562	$10,480	0	10, 480	$10,380	0	10, 380
$11,000	0	462	11, 462	$11,380	0	11, 380	$11,280	0	11, 280

Note: Alternative I.—EITC matches earnings dollar for dollar up to cash assistance guarantee for family expected to work (CAG). Above this level EITC equals 20 percent of the next $1,700. Above this the EITC is taxed at 40 percent up to 4 times the CAG at which point the tax rate drops to 10 percent. Both earnings and the EITC are taxed by the cash assistance program. The tax rate in the ash assistance program is 45 percent for those expected to work and 70 percent for those not. Alternative II.—The EITC is 50 percnt up to double the CAG above which it is taxed back at a 40 percent tax rate. Above 4 times CAG the EITC tax back is 10 pecent. The tax rate in the cash assistance program is 33⅓ percent for those expected to work and 60 percent for those not expected to work.

TABLE 4.—A COMPARISION OF WELFARE REFORM ALTERNATIVES FOR 4 PERSON FAMILIES WITH NO ONE EXPECTED TO WORK

				Alternative I			Alternative II		
Earnings	Cash assistance	EITC	Total	Earnings and EITC	Cash assistance	Total	Earnings and EITC	Cash assistance	Total
0	$4, 200	0	$4, 200	0	$4, 200	$4, 200	0	$4, 200	$4, 200
$1,000	3, 700	$100	4, 800	$2,000	2, 800	4, 800	$1,500	3, 300	4, 800
$2,000	3, 200	200	5, 400	$4,000	1, 400	5, 400	$3,000	2, 400	5, 400
$3,000	2, 700	300	6, 000	$5,440	392	5, 832	$4,500	1, 500	6, 000
$4,000	2, 200	400	6, 600	$6,640	0	6, 640	$6,000	600	6, 600
$5,000	1, 700	450	7, 150	$7,240	0	7, 240	$7,140	0	7, 140
$6,000	1, 200	500	7, 700	$7,840	0	7, 840	$7,740	0	7, 740
$7,000	700	550	8, 250	$8,440	0	8, 440	$8,340	0	8, 340
$8,000	200	600	8, 800	$9,040	0	9, 040	$9,940	0	8, 940
$9,000	0	650	9, 650	$9,640	0	9, 640	$9,540	0	9, 540

Note: See table 3 for description of alternative I and II.

Could these increases in the incidence of marital splitting for people on an NIT be produced by some bias in the mode of analysis? Longitudinal studies always find that some proportion of the families originally chosen for study disappear or refuse to cooperate with later interviews. Women who have separated from their husbands have a stronger incentive to remain in touch with the program if they are eligible for negative income tax payments. As a result, attrition from the sample may be disproportionately high for controls who change their marital status. If this occurs, rates of marital dissolution in the control group will be understated and the increase in marital splits due to the negative income tax experiment will be overstated. Attrition is quite large in the data that Sawhill et al. have analyzed from the New Jersey Experiment and it may be biasing her results. Attrition is not, however, solely responsible for the large experimental effects being observed in the Seattle-Denver Experiment. Hannan, Tuma and Groenveld have tested the sensitivity of the Seattle/Denver results to attrition. Even under the worst case—the unrealistic assumption that all controls who leave the experiment are dissolving their marriage—significant positive experimental impacts remain for whites and blacks. The decline in the support multiplier produced by even these extreme assumptions imply that in the low support plans instead of their being a 100 percent increase there is a 50 percent increase in rates of marital dissolution.

The fact that all of the experimental group and only some of the control group were filling out Income Report Forms is another potential source of bias. In Seattle/Denver the financial report form was one of three sources of information used to keep track of changes in marital status. It is therefore possible that some of the separations that last for only a few months might be counted only when the financial report form is being filed. If this happened rates of marital dissolution and remarriage in the control group will be understated. This would cause the impact of the experiment on dissolutions to be overstated and its impact on remarriages to be understated.

The bottom panels of Table I allow us to examine whether there is a tendency for more marital status changes to be measured when a family is filing an Income Report Form. The average for all ethnic groups suggests that while not having to file an IRF may undercount remarriages, it has no effect on the likelihood of counting splits. If only families filing the IRF are used to derive the effect of the experiment, on marital dissolution, the measured impact declines slightly for whites and rises substantially for blacks. The impact of the experiment on rates of marital dissolution of Chicanos—which have never been statistically significant—are further reduced. The average of the point estimates of experimental effects on splitting does not change. However, because the effective size of the sample has been reduced, the statistical significance of the result falls.

Knowing what happened in the experiments does not mean we know what will happen if a similar change is made in the nation's welfare system. A revision of the welfare system would be viewed as a permanent change; the experiments were known by the participants to be temporary. One would expect a permanent program to have a larger impact on marital stability than a temporary one. Evidence for this hypothesis is provided by the fact that in Seattle/Denver the impacts of the experiment on both white and black families promised 5 years of payments are consistently (though non-significantly) greater than those on the plan for three years.

A second result of the short term nature of the experiment is that we do not know whether the effects observed over the first three years will continue in the 4th, 5th, etc. years of a permanent program. It is possible that for families that remain in the program long term effects will be much smaller than the initial response. Over the first 24 months of the Seattle/Denver experiment such a pattern was observed for whites. The opposite pattern—effects increasing over time—was observed for Blacks and Chicanos. Even if the impact of the program were to decline after three years, the turnover in the population affected by the program (newly formed families and families experiencing a severe decline in income due to unemployment or sickness) will insure that the induced rise in marital instability would not gradually disappear.

The final difficulty with using the experiment to predict the results of a national program is that the experiments occurred within the context of an exogenously determined general climate of opinion and customs about marriage. A national program might over time change the customs and the climate. The fact that something is more common may tend to cause us to feel it is more acceptable. I raise this only as a possibility. I am not aware of nor competent to judge the evidence on a question like this.

Having dealt with the potential biases in the estimates of experimental effects, let me turn to the interpretation of the results. Here one is on shakier ground for while the experiments provide a hard to refute answer to the question "Will marital dissolution rates go up or down," they only provide us clues to "why."

The standard analysis of the marital stability response to a universal cash assistance program suggests that there should be two contrasting effects. The fact that the family is made better off while it remains together should reduce marital instability. This income effect as it is called should be strongest in the most generous plans. Split rates are lowest in the most generous plans so it appears that at least across plans an income effect is operating. The second effect results from the fact that the program also increases the income of one parent families. By improving the financial situation of the wife if there is a split and reducing the need for child support, the program may induce some families to split. This female independence effect as it is called is also presumed to be the reason why women who work and earn good wages are more likely to split. Evidence for the proposition that a female independence effect is operating is provided by the high split rates of families on a NIT plan but earning too much to receive a payment. The only way these above breakeven families can receive payments from the program is by reducing market work or splitting up. Splitting up seems to be one of the responses.

The most puzzling thing about the experimental results is that women on the low support plan are dissolving their marriages at a very high rate despite the fact that AFDC will pay them almost as much or more in the event of a split. Hannan, Tuma and Groenveld suggest that lack of knowledge about and the stigma attached to receiving AFDC and food stamps may result in these programs having much smaller female independence effects than the NIT Experiment. In the New Jersey experiment, however, Garfinkel found that when AFDC payments exceeded experimental support more than half of the splitting families chose to be on AFDC and not the experiment. This suggests that at least some of the splitting women did not consider the stigma of AFDC sufficiently large to outweigh the small financial gain involved in being on AFDC.

Another possible source of the high split rates of the experimental families on the low support plans is that the receipt of income tested cash transfers may lead to dissatisfaction with the husband's performance of his role and this may accentuate marital instability. Let me state the case for this view. Most working and middle class families have traditional views about the roles husbands' and wives' are to perform. The husband is supposed to be the breadwinner. If he is not able to fulfill his role, marital tensions result. The research on families experiencing long term unemployment during the depression suggested that other members of the family may tend to lose respect for him and he may tend to loss respect for himself. The male role performance view of instability is supported by the non-experimental research reviewed at the beginning of the paper. Families with an unemployed husband or a wife who is providing a major share of the income are more likely to be unstable. The Hoffman-Holmes finding that men working 48 hours a week had the lowest split rates suggest that the husband's wage rate matter less than how hard he tries.

The role performance explanation of the rise in splits is that the receipt of an income tested cash transfer is viewed by some families as a signal that the husband is a failure? A second variant of this explanation suggests that since the program increases the number and length of spells of unemployment, friction produced by having the man around the house builds up into a split. The evidence for choosing this view over the others is rather sketchy. Families with male role performance problems seem to be the ones most effected by being on the experiment. The proportionate increase in marital splitting seems to be greatest when the family's pre-experiment earnings are low and when the wife is well educated and is able to command a good wage rate.

At present the three explanations—stigma, information and male role performance—of the unexpectedly high split rates in the low support plan have the status only of hypotheses. They do not conflict with each other. It is almost certain that to some degree all three effects are operating.

The weight assigned to each is important, however, because it influences how seriously we view the splits that universal cash assistance may cause and what policy measures are available to reduce the number of splits. Some might view splits caused by a reduction of the stigma of being on AFDC or greater awareness of opportunities for aid as giving women the option to sever an already bad relationship. What are the consequences for the children of her exercising this option?

Holding constant race, religion, parent's education and occupation, the average child who grows up with only one parent spends one less year in school and obtains jobs that pay about 10 percent less. The experience of the marginal child may be different, however. It has been argued that a marital dissolution induced by reducing the stigma of AFDC will not hurt the children nearly as much as the averages quoted above. It might help the children. Social science does not know the extent to which children are hurt by this type of marital split and is not likely ever to be able to find out for we will never do the controlled experiment that would be necessary.

The role performance interpretation implies that a process of marital deterioration has been initiated and that every member of the family is going to be worse off. Most people would be likely to agree that it would be quite unfortunate if marriages were dissolving for this reason.

Which interpretation one gives to the high rates of marital dissolution in the low support plans of the experiment also effects how one might modify the welfare reform package to reduce the number of marital dissolutions caused by the program. If increased knowledge of the availability of income support for the family if a dissolution occurs is the cause, segregating the programs that aid two parent families from the one that aid single parent families is indicated. An earned income tax credit or wage rate subsidy would accomplish this. If stigma is the major explanation, we are between a rock and a hard place. There would appear to be no way we can make single parent families better off without creating more of them.

If the fact that the experiments makes payments to a husband that deserts his family is an important part of the explanation the solution is to categorically exclude non-aged or disabled single individuals from eligibility for income maintenance.

If the role performance explanation is a major cause, aiding the family through jobs and earnings related transfers is the solution. The key is to aid the family in a way that does not demean the husband or create incentives for the man to extend his periods of unemployment. The work requirement in the proposed program will tend to do the latter. The proposed program could have an unfortunate signaling effect, however. One way to avoid having the receipt of aid be seen as a signal that the husband is a failure is to construct the system so that the payments are received as part of the workers paycheck. Both earned income tax credits (EITC) and wage rate subsidies (WRS) would be built into withholding and would therefore operate in this way. By raising the EITC subsidy rate to 50 percent or more, making it taxable and increasing the marginal tax rate in the cash assistance program, almost all the two parent families that will receive cash assistance payments under the current proposal would instead be receiving the same dollars of increased income in the form of a higher paycheck. An example of how such an EITC oriented program would work for single and two parent four person families is provided by Tables 3 and 4. A wage rate subsidy could be similarly designed to integrate with a guarantee type program. The advantages and disadvantages of these work related subsidy approaches are discussed in Section III. A mechanism for administering a family wage rate subsidy is described by the final section of my prepared testimony. This section compares the administrative problems of NIT's EITC's and wage rate subsidies.

III. SUBSIDIES TO PRIVATE SECTOR WAGES AS INCOME MAINTENANCE

Early in the debate over how to raise the income of the poor, several authors put forward ideas for subsidizing private sector wages. Although the subsidies took various forms, all had the purpose of supplementing incomes of working poor families without weakening the incentives to work. To a very large extent, subsidies to wages were viewed as an alternative to the negative income tax (NIT) approach to reforming welfare. The subsidies became legislative proposals when the Senate Finance Committee proposed two kinds of subsidies to wages in its substitute for President Nixon's NIT proposal. Senator Russell Long, Chairman of the Committee, favored wage subsidy approach not only for work incentive reasons, but also because he did not believe it equitable to pay benefits to families with employable members unwilling to work.

Of the subsidies to wages oriented toward income maintenance, the two most frequently proposed are the wage rate subsidy (WRS) and the earnings subsidy (ES). The WRS is a government payment per hour of work. The per hour payment is equal to a percentage (the subsidy rate, r) of the difference between some target wage (TW) and the worker's actual wage (W). The general formula for the WRS is:

$$WRS = r(TW - W) \tag{1}$$

To take a simple example, suppose $TW=\$3.40$, $r=0.5$, and $W=\$2.40$. Then the worker would receive a subsidy equal to \$0.50 per hour. The ES is a payment based on total earnings that operates differently over ranges of earnings above and below some specified level of earnings, called the kink point (K). Up to the kink point, the ES equals some percentage (b1) of earnings (E); beyond the kink point, the ES declines by some percentage (b2) times the amount by which earnings (plus other income) exceed the kink point. Thus, the formula for the ES is: (where Y=total income)

$$ES = \begin{cases} b1\,(E) \text{ if } Y < K \\ \min\,(b1 \cdot K,\ b2 \cdot E) - b2(Y - K), \text{ if } K < Y < \min\,(E, K)\left(1 + \frac{b^1}{b^2}\right) \\ 0, \text{ if } \min\,(E, K)\left(1 + \frac{b^1}{b^2}\right) < Y \end{cases} \tag{2}$$

The existing earned income tax credit is an example of an earnings subsidy. It pays workers in families with children a subsidy equal to 10 percent of earnings up to $4,000, thus yielding a maximum subsidy of $400. The payment declines from its maximum by 10 percent of each dollar of income above $4,000.

Limitations of pure wage rate and earnings subsidies

The WHS and ES proposals attracted attention, but their pure forms soon exhibited clear weaknesses. Neither program offered the basis for a comprehensive income maintenance strategy, even for those groups expected to work, because they could not assure income to families whose only workers were unemployed.

The second problem was target-efficiency. Paying people with low earnings or low wage rates did not necessarily mean scaling benefits to family needs. The WRS appeared particularly weak at channeling a high share of expenditures to the lowest income groups. If labor supply were somewhat elastic and labor demand were inelastic, a high share of WRS benefits could go to employers. Even if benefits did not accrue to employers, secondary workers in moderate income families would receive a substantial share of WRS benefits. Barth estimated that a WRS program in 1966 paying half the difference between $2.50 and the worker's wage would have targeted only 16 percent of its expenditures on the preprogram poor.

The pure ES would do a better job of reaching low income families than the pure WRS, but at the cost of imposing potentially high tax rates on earnings above the kink point or at the cost of providing low benefits. In this sense, the ES conflict between incentives, adequacy, and cost is similar to the NIT conflict.

Combining wage subsidies with income or job guarantee programs

Since neither the WRS nor ES would offer any help to poor families whose workers are unemployed, they would have to operate alongside either an income or job guarantee program in order to assure that all families are able to attain a decent income level. Would the WRS or ES perform well in combination with an NIT or guaranteed jobs program?

In the case of the NIT, the answer is no. The ES would lower the effective tax rate workers face on earnings below the ES kink point, but it would raise the tax rate on all income above the kink point. Actually, one could adjust NIT tax rates to yield a result equivalent to any NIT-ES combination. The NIT could simply tax the initial range of earnings at a low rate and the later range of earnings at a high rate. The WRS would be clearly independent of the NIT. The WRS would raise the return to additional hours worked by increasing the worker's wage before the NIT tax rate is applied. However, this improvement in work incentives would be offset by the worsening of the incentive to move to a higher wage job. If we used the 50 percent parameter usually applied under the NIT and WRS, the tax rate on increases in wage rates would be 75 percent.

These weaknesses in incentive effects would not arise if the ES or WRS were combined with a job guarantee program. In fact, an ES or WRS that applied only to regular jobs would serve the vital function of giving workers a special incentive to accept a low wage regular job over the special public job. From another standpoint, the ES or WRS would permit a gradual instead of a sudden phase-out of benefits. Relying exclusively on a job guarantee program would mean that workers whose wage rates are slightly above the public job wage would not receive direct benefits. They would only gain indirectly if the job guarantee program induced wage gains for these workers.

Before taking such programs seriously as income maintenance alternatives, one would have to amend the simple specifications so that a high proportion of expenditures could reach the lowest income families. If all workers were eligible for a public job under the same conditions, and/or for the same WS or ES schedule, a large share of expenditures would go to nonpoor unrelated individuals and secondary workers in moderate income families. Several ways of amending the work-subsidy programs are feasible. One is to divide the population into categories and to offer the highest benefits to families with children and the lowest benefits to unrelated individuals. A second is to employ a surtax on other family income, so that income above some disregard level would reduce benefits at a low tax rate. The third is to limit the eligibility for the public job or WRS to the primary earner in the family. These approaches, which are explored in more detail below, indicate that the combined wage subsidy-job guarantee proposals could be serious alternatives to the NIT and to existing income maintenance programs.

3. *A comparison of employment subsidy and NIT proposals for reforming welfare*

The primary controversy between those favoring employment subsidies and those favoring the NIT is over the treatment of families with able, employable members. Like the NIT and the current welfare system, employment subsidy proposals would guarantee minimum incomes to families whose only breadwinner is aged, disabled, or occupied with the care of young children. Given this agreement, we can direct the comparison in this paper to the different approaches to providing benefits to the working poor.

The goals of welfare reform advocates vary widely; they range from eliminating welfare fraud to reducing income inequality. In this paper, we cannot consider all the involved issues in welfare reform. Instead, we focus on four major sets of issues: (1) equity; (2) incentive, production, and employment effects; (3) target-efficiency; and (4) social effects and public support.

Equity and categorization

NIT advocates pride themselves on following the equity principles developed in tax analysis. The index of equality used for purposes of defining horizontal and vertical equity is the income of the unit, adjusted for family size. Thus, the NIT benefit schedule generally sets equal payments for all units of equal size and income. Of course, even in pure NIT proposals, there are exceptions to these rules. For example, aged, blind, and disabled individuals are generally eligible for higher income guarantees than other persons. Although little is made of these exceptions, they do point to the existence of other principles that should play a role in defining an appropriate index of equality.

We may express the limitations of the income-family size index in two ways. One is that the index does not take account of differences among units in full income, because it ignores imputed income from leisure and from house work. A second expression of this limitation is that the income-family size index attempts to base benefits on equality of results instead of equality of opportunity. The NIT would pay equal benefits to those who end up with equal incomes relative to needs, while the payments under the employment subsidy approaches also depend on differences in income-generating capacity.

However expressed, this limitation casts doubt on the equity advantages usually claimed for the NIT. For one thing, it no longer appears inequitable to offer more favorable benefit schedules to one-parent families than to two-parent families. At any reported income, two-parent families would generally have a higher imputed income than one-parent families. Thus, paying equal benefits to one- and two-parent families of equal size and income would be inequitable on a full income basis.

The full income idea is also relevant to the differential treatment of two-parent families with different amounts of income, earnings, and hours worked. The NIT would pay equal amounts to those with equal incomes, regardless of differences in hours worked and differences in the extent to which unemployment is voluntary or involuntary. The employment subsidy proposals distinguish among those with equal incomes. First, unlike the NIT, the subsidy-job guarantee proposals permit those with very low earnings and hours worked in regular jobs to do better the longer they are willing to work. Periods of involuntary employment could be filled with earnings from the special public job. Second, the WRS-job guarantee approach would pay more to a low wage, full-year workers than to a high wage, part-year worker with the same earnings. Benefits under the ES-job guarantee proposal and the NIT would be the same for both. Here, the WRS approach is superior because it takes account of imputed leisure more adequately than the other approaches. On the other hand, some versions of the WRS approach do not reduce benefits for nonemployment income. And most versions of the ES and WRS do not pay differential benefits based on family size.

Work incentives, employment, and output effects

Perhaps the primary concern about income support programs is that they discourage recipients from working by allowing them to substitute government benefits for wages. Although employment subsidy proposals mitigate this problem by conditioning benefits on work effort, those proposals with job-guarantee components raise the additional incentive problem of inducing those with regular jobs to move to special public jobs.

Ordering the proposals by the extent to which they preserve work incentives places the WRS-job guarantee proposal first, the ES-job guarantee proposal second, and the NIT third. Unlike the NIT, neither the ES nor the WRS proposal provides an income floor for employable people who do not work. In addition, the WRS raises the effective wage rate of low wage workers over the entire range of hours worked. The ES is less work-encouraging than the WRS because while it raises the effective wage for all workers for some initial level of hours, it reduces the effective wage for later ranges of hours worked. That the NIT guarantee and tax rate will tend to discourage work effort is well known. What is often ignored is the likelihood that the cumulative marginal tax rate on earnings NIT recipients face will far exceed the NIT tax rate. If we assume the elimination of food stamps, the NIT would still have to coexist with state supplements, social security taxes, State and local taxes, subsidized housing, income-tested child care and higher education grants, and Medicaid (or national health insurance), all of which would add to the usually quoted NIT rate of 50 percent. One could lessen the problem of escalating tax rates by lowering the NIT tax rate and either raising budget costs or lowering the income guarantee. However, the need for these changes is often brushed aside.

Several estimates of the NIT effect on work hours are available, but estimates of the impact of the other alternatives are not precisely comparable. Garfinkel and Masters simulated the labor supply effects of an NIT with a poverty level guarantee and a 50 percent tax rate, of a wage rate subsidy paid to family heads using a 50 percent subsidy rate, and of an earnings subsidy with 50 percent subsidy and 50 percent tax rates. For NIT and WRS proposals of approximately equal expenditure, they found that the NIT would induce about a 12 percent decline in hours worked of recipients while the WRS would either increase hours slightly or not change hours at all. The ES simulation yields the intermediate result of a 7 percent to 8 percent decline in hours supplied. However, since the ES proposal simulated would have cost less than the other two proposals, the supply reduction for an equal cost ES might be lower (if the added cost came through reducing the ES tax rate) or higher (if the added cost came through raising the ES subsidy rate) Lerman, MacRae, and Yezer simulated a combined WRS-job guarantee proposal using a general equilibrium model. They estimated that the combined program would actually raise hours worked by about 5 percent for primary workers and up to 60 percent for secondary workers.

A second kind of incentive effect concerns the worker's job search strategy. We would expect the NIT to operate in a manner simillar to unemployment insurance in lengthening the amount of time workers spend out between jobs. The NIT would add to the unemployment insurance shield against income losses while unemployed. Although it would reduce the absolute gain from waiting for a better job, it would also lower the foregone income lost during search. Like the NIT, the WRS-job guarantee program would lower the absolute gain from waiting for a higher wage job; but unlike the NIT, the WRS would raise the foregone income during periods of search when the worker is unemployed. Again, the ES-job guarantee proposal's effects lie somewhere in between. For ranges of earnings below the kink point, the ES would raise foregone income during search but would leave undisturbed the absolute gain from waiting. The opposite would occur over earnings ranges above the kink point. Of the three proposals, the WRS-job guarantee proposal would imply the least incentive to increase job search time.

Although the employment subsidy proposals would induce less movement out of the labor force, they might cause declines in real output because of the movement from regular jobs to special public jobs.

Another kind of difference in output effects could result from differential effects on the unemployment-inflation tradeoff. Given the NIT's static effects on labor supply and dynamic effects on job search time, one would expect the NIT might cause a worsening of the tradeoff. In contrast, a large public job program targeted on the least skilled workers should cause an improvement. Although the results are not definitive, Tobin and Bailey indicate that a large jobs program can lower the unemployment rate that is consistent with a nonaccelerating rate of inflation. Their results were in a similar direction for a wage subsidy program. However, they did not try a combination WRS-job guarantee program. Lerman, MacRae, and Yezer did simulate a WRS-job guarantee program using a static general equilibrium model and found that the program would have no effect on wage rates but would bring about a substantial increase in employment.

Target-efficiency

Although the calculation of target-efficiency sometimes appears to involve only a simple counting up of the share of expenditures going to the poor, the concept in fact embodies a whole series of effects and issues. Vertical target-efficiency, as enunciated by Weisbrod, represents the share going to a target group that may be or may not be wider than those classified as poor. Horizontal target-efficiency measures the extent to which benefits cover the entire population within the target group. An entitlement program, such as an NIT or job guarantee program, by definition covers the group that is the target of policymakers. But, whether the entire target group will take advantage of their entitlement can only be known after the program is in place.

One dimension of vertical target-efficiency is the extent to which benefits reach the lowest income groups within a given type and size of family. Here, the NIT faces a different, more strict constraint than the employment subsidy proposals. Suppose the maximum permissible NIT tax rate required to preserve work incentives is 50%. Then, NIT designers must either allow benefits to leak upward in the income distribution or limit the size of the income guarantee. With the job guarantee approach, this conflict can be less severe. The government can assure a job paying $5,500 per year without providing significant benefits to those in the $5,500–$9,000 range or drastically reducing their incentive to work. The reason is that the relevant incentive question is not work or leisure, but work in a public job or work in a regular job. We generally assume that, as long as the worker must forego the same leisure regardless of the job, he will not need an especially high reward to choose the higher paying job.

To measure precisely the target-efficiency of each alternative requires good estimates of the various leakages. The NIT's payment of benefits to groups above poverty is not a serious leakage to those who include lower middle income families in the target group. But, the leakage due to reduced labor supply is of general concern. It turns out that the NIT's high target-efficiency rating could be seriously affected by even small supply reductions. Consider a worker heading a family of four and earning $3.60 per hour for 2,000 hours. At a $4,000 guarantee and 50 percent NIT tax rate, the family would receive $400 in benefits. If the NIT were to induce only an 11 percent drop in hours worked, the NIT payment would double to $800. Simulations of an NIT with these parameters over the entire population indicate that 40 percent of the NIT's net cost (above existing transfer expenditures) would offset earnings losses due to NIT-induced supply reductions. Thus, the small percent decline in hours can cause a high percentage leakage; the leakage is most pronounced for the highest wage NIT participants.

Several kinds of leakages would arise under the job guarantee proposals. Like the NIT, an ES-job guarantee program would have to spend some money just to offset labor supply reductions. A second set of leakages would result from the jobs component. In the case of workers who would have worked in regular jobs if the special public jobs were unavailable, the increase in workers' incomes could be only a small part of government expenditures. Not all of this gap should necessarily be considered a leakage since the vacancies left by workers moving from regular to special public jobs will be filled largely by otherwise unemployed teenagers and secondary workers, many of whom are needy. A different kind of leakage could come about if secondary workers in middle and upper income families were allowed to qualify for the special public jobs or the wage rate subsidies. There are two solutions to this potential problem. One is to apply a surtax on the family income of those taking the special public jobs. A second is to limit eligibility to the family's primary earner in the previous year.

A broader problem arises for the employment subsidy proposals when we turn to families of different type and size. One method used to target employment subsidy benefits is to offer differential benefit schedules to different family types. Families with children would qualify for the most generous schedules; unrelated individuals for the least generous. This categorization improves target-efficiency substantially, but would still fail to provide higher benefits to larger than to small families with children. While it is possibe to add some family size conditioning to the work-related benefits, this solution would seem to conflict with the attempt to make the benefits primarily work-related and not need-related.

Finally, any jobs program would have to confront the problem of overhead costs. Although such costs lower direct measures of target-efficiency, overhead that results in added output could be interpreted as reducing the program's net cost to the taxpayer.

It is difficult to compare overall target-efficiency because the cost and benefit estimates are sometimes computed on a gross and sometimes a net basis and because the alternatives might replace different sets of programs. All would eliminate the current AFDC and food stamp programs, but only some proposals would phase out SSI and others would rechannel CETA funds. What comparative numbers do exist indicate that the target-efficiency of the alternatives would be similar. The estimate of the target-efficiency for the HEW version of the NIT is a high 80 percent, or well above the approximately 60 percent figure for a WRS-job guarantee program. However, upon closer inspection, the two are not so far apart. The NIT's high rating is due partly to the fact that it replaces SSI, another highly target-efficient program. A second adjustment would have to be made for HEW's overly optimistic estimates of offsets resulting from labor supply reductions. The WRS-job guarantee programs target-efficiency would have to be adjusted downward because of its low figure for administration and overhead. But, this adjustment could be offset by an adjustment for the output of the public jobs programs. Still another adjustment favoring the jobs approach would result from the fact that the WRS-job guarantee program could more easily preempt the strong lobby for high wage, target-inefficient public jobs programs.

Social effects and public support

Current welfare programs encourage instability, generate feelings of inadequacy and dependency, and intensify social divisions between income and ethnic groups. How do the reform proposals compare in terms of reducing the undesirable social effects of providing income support to the poor?

One problem is welfare's negative image among recipients and taxpayers. The image is that welfare provides income based not on current work or past contributions but instead on current idle or immoral behavior; and that welfare pays out benefits to a special group willing to become public charges. The NIT would continue welfare's policy of paying families a cash allowance not directly linked to work effort. But unlike welfare, the NIT might become viewed as part of a universal tax-transfer system that makes distributional adjustments over the entire income range. The fact that the NIT would pay benefits mostly to families with workers and to two-parent families could change the image taxpayers have of transfer recipients. Such effects might make the NIT highly acceptable, but they might not. The current food stamp program, which pays benefits to working and nonworking poor alike, has a better image than welfare, but the majority of working poor do not claim benefits. Although the AFDC-UF program extends eligibility for income transfers to two-parent families, only a small proportion of eligible families take up benefits. This experience indicates that working poor families still feel some stigma in accepting benefits that are not work-related. Beyond this, the public may not yet be ready for a broad income guarantee strategy. Opinion polls consistently show the public prefers the concept of job guarantees over income guarantees.

Employment subsidy programs would have more public appeal than the NIT because they ensure that recipients must work to obtain benefits. Recipients in a public job or wage-subsidized private job might also feel more as if their benefits were earned and are not simply a government handout. Current welfare recipients often express the goal of working their way off welfare. The danger is that if the jobs are unproductive, obviously make-work tasks, employment subsidy programs could end up being as unpopular as welfare.

This reinforces the need to encourage low wage workers to remain in regular jobs instead of moving to special public jobs. The ES and WRS both provide added incentives to those choosing regular jobs. As noted above, the WRS structure offers an advantage in this respect because it creates a private-public differential over the entire range of earnings.

Eliminating family splitting incentives is another goal of income maintenance policymakers. The three proposals would move in this direction by improving the benefit package available to intact families. But, none would eliminate the advantage accruing to units that split on paper for purposes of maximizing income. For example, under an NIT, the availability of an income guarantee to one-parent families and a high tax rate on earnings would make it potentially profitable for the family head to split and to keep his full earnings, while allowing the rest of the family to claim the full NIT guarantee. A second kind of family splitting effect occurs because high benefits to mothers heading families allow them to attain financial independence. If this effect operates, the rise in benefit levels for mother-headed families in low payment states—a feature that is part of all reform proposals—could result in more separations and divorces in some states.

Still another view of efforts to reduce family splitting is that income supplements to poor two-parent families are by themselves insufficient. Some sociological studies suggest that the man's lack of employment—his failure as breadwinner—is the prime source of instability. Partial evidence in support of this view comes from data showing that the provision of income supplements through the AFDC-UF program was not sufficient to prevent recipient families from having a high rate of family splitting. Ensuring a job for male family heads could improve their self-image and could be a better approach to lowering family instability than providing income support through an NIT. However, if the employment subsidy programs are unable to offer jobs of sufficient quality, recipients may experience no improvement in their self-image.

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[Whereupon, at 12:28 p.m., the subcommittee adjourned, to reconvene at 9:30 a.m., Tuesday, October 4, 1977.]

ADMINISTRATION OF THE AFDC PROGRAM

TUESDAY, OCTOBER 4, 1977

House of Representatives,
Intergovernmental Relations
and Human Resources Subcommittee
of the Committee on Government Operations,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:35 a.m., in room 2247, Rayburn House Office Building, Hon. L. H. Fountain (chairman of the subcommittee) presiding.

Present: Representatives L. H. Fountain, Elliott H. Levitas, Michael T. Blouin, John W. Wydler, and Clarence J. Brown.

Also present: Delphis C. Goldberg, professional staff member; James R. Naughton, counsel; Pamela H. Welch, secretary; and John Duncan, minority professional staff, Committee on Government Operations.

Mr. **Fountain**. The subcommittee will come to order.

Let the record show that a quorum is present.

This morning the subcommittee is continuing oversight hearings on the aid to families with dependent children program.

The problems we will discuss today involve fundamental administrative difficulties which the Government will have to face up to regardless of the specific legislation which may be enacted by the Congress in response to the President's welfare reform proposals.

Our first witness will be Mr. James D. Martin, Deputy Director of the Human Resources Division of the General Accounting Office.

We have asked Mr. Martin to describe the GAO's review and evaluation of the quality control program developed by HEW for reducing erroneous welfare payments in the AFDC program.

Since another of our witnesses, Dr. Marc Bendick of the Urban Institute, is also directing his attention and testimony to the AFDC quality control program, I will ask him to testify immediately after Mr. Martin.

Following Dr. Bendick's statement, we will address our questions to both witnesses in order to help expedite the hearing.

I would like to say that your entire statements will become a part of the record, even though you have the privilege of summarizing your statements. We hope that you can keep your presentations within a 15-minute limitation.

Mr. Martin, will you identify the GAO staff members who are accompanying you, and then please proceed with your statement.

STATEMENT OF JAMES D. MARTIN, DEPUTY DIRECTOR, HUMAN RESOURCES DIVISION, U.S. GENERAL ACCOUNTING OFFICE; ACCOMPANIED BY DICK HORTE AND NEIL MILLER, SUPERVISORY AUDITORS

Mr. MARTIN. Thank you, Mr. Chairman.

On my immediate right is Mr. Dick Horte, who is the Audit Manager responsible for the assignment on which the report was issued.

On my far right is Mr. Neil Miller who is currently responsible for several jobs that we're performing on the AFDC program.

Mr. Chairman and members of the subcommittee, I am pleased to appear here today to discuss the management of the aid to families with dependent children—AFDC—program.

I will discuss the results of our recent review of the AFDC quality control program and comment on other work we have in process relating to the management of the AFDC program.

The results of our review of the quality control program were contained in our report to the Congress, entitled: "Legislation Needed To Improve Program for Reducing Erroneous Welfare Payments, HRD 76–164," dated August 1, 1977.

For several years, the Congress has expressed concern about the high incidence of erroneous payments to AFDC recipients. In 1964, HEW developed a quality control program to monitor and control AFDC errors.

In early 1973, 9 years after the program had been developed, 19 States still did not have an operational quality control program. Consequently, in April 1973 HEW made an abrupt change in its quality control program by introducing a fiscal disallowance provision in its regulations as a means of controlling errors.

HEW established allowable error rates, or tolerance levels, of 3 percent for ineligibility and 5 percent for overpayments, and said that it would not reimburse States for payments that exceeded those levels as of July 1975.

Later, States were given until December 1975 to reduce errors to those levels to avoid having funds withheld.

The fiscal disallowance provision became the center of controversy between HEW and the States. As of May 1975, 17 jurisdictions had filed suit in three separate court actions against HEW, challenging the legality of the fiscal disallowance regulations.

The courts ruled that because the tolerance levels were arbitrarily established at 3 percent and 5 percent without benefit of an empirical study, the regulation was framed in an arbitrary manner and therefore was invalid.

As a result of these decisions, on March 10, 1977, HEW revoked its fiscal disallowance provision of its quality control regulations.

Since 1973, ineligibility and overpayment error rates have shown a continual decline. Nationally, these error rates declined from about 33 percent as of September 1973 to about 20 percent as of June 1976. However, error rates recently have been declining at a slower rate.

Despite the error rate reduction, about $500 million a year in Federal funds is being misspent in the AFDC program. Therefore, some financial incentive is probably needed to assure that States continue to seek appropriate corrective action.

If fiscal disallowances based on State error rates are used as the incentive, then we believe the basis for the disallowance should be payment error rates rather than case error rates.

Therefore, we recommended in our report that HEW base the reporting of State errors on dollar amounts rather than on case error rates. HEW concurred with this recommendation and said that they will focus on payment errors rather than case errors in future reporting.

We believe that HEW will continue to encounter problems in attempting to establish any new fiscal disallowances. We, therefore, recommended in our report that the Congress determine the control that would best provide the desirable financial incentive to States for reducing errors and enact appropriate legislation.

Our report also addressed the reliability of HEW statements about the accomplishments of the quality control program.

HEW has continually overstated the accomplishments that can reasonably be attributed to error rate reductions, thus detracting from the credibility of those bona fide program accomplishments.

The savings estimates were not based on valid statistical projections and included actions which did not necessarily produce direct savings in welfare payments.

Also, HEW did not consider in its estimates the administrative costs that would be associated with implementing corrective actions for reducing errors.

HEW computed savings for each State that had shown reductions in case error rates. HEW did not, however, consider whether the error rate changes were statistically significant nor did it offset its estimated savings for any States which had error rate increases.

A second and perhaps more fundamental issue in the overstatement of accomplishments concerns the assumption made by HEW that there is a direct relationship between reduction in case errors and savings to the program. This assumption is incorrect, because certain types of errors can be reduced or eliminated without necessarily producing any direct savings or reductions in welfare payments.

As stated previously, in computing the savings estimates, HEW did not consider the administrative costs associated with corrective actions. We believe consideration of these costs is particularly important in view of the increasing administrative costs of the AFDC program.

In fiscal year 1974, total costs of State and local program administration were about $700 million. In fiscal years 1975 and 1976, such costs had risen to over $1 billion, an increase of about 48 percent.

Also, the States we visited generally were implementing corrective actions without determining their cost effectiveness.

HEW has recognized the need for cost-effectiveness studies by requiring that States perform such analyses in conjunction with their corrective action program.

We recommended that HEW revise its basis for determining program accomplishments by:

One, determining savings on the basis of valid statistical projections;

Two, considering only those error reductions that directly result in reduced program costs; and

Three, accounting for the increased administrative costs of implementing corrective actions.

We also recommended that HEW assist the States in identifying cost-effective corrective actions.

HEW generally agreed with our recommendation on the reporting of accomplishments and stated that it would seek ways of obtaining the necessary data to better refine its reporting.

Regarding our recommendation for giving assistance to States, HEW said it is constantly striving to make its work in this key area more effective.

We believe that HEW should focus on directly assisting those States having the greatest difficulty in reducing errors. HEW should concentrate on identifying States' corrective actions that have been effective and determine whether the same actions would be appropriate for States that have been unsuccessful in reducing errors; and, if so, assist them in implementing such actions.

Turning to the other work ongoing in the AFDC program, we currently have in process three other reviews which relate to AFDC management.

One review involves an optional provision of the AFDC program which allows States to provide emergency assistance to needy families with children. The fieldwork on this review has been completed.

Our objectives were to determine why only about half the States elected to participate in the program and to evaluate Federal and State program administration.

Our preliminary findings, which are subject to revision, are that operation and administration of the program have been hindered by conflicting interpretations of the enabling legislation by HEW, the States, and the courts. The conflicts pertain to recipients' eligibility and the type and extent of emergencies covered.

Another review we just recently started involves administrative costs of the AFDC program.

San Diego County, Calif., recently completed a detailed analysis of its own welfare administrative procedures. The county concluded that through better use of its staff and computers less staff would be needed and the county's AFDC administrative expenditures for fiscal year 1977 could be reduced by about 26 percent, or $2.4 million, about half of which is Federal funds.

Since the potential for nationwide administrative cost savings is substantial by applying the San Diego County study methodology, we are testing and refining this methodology in another California county to determine the feasibility of applying it in reviews in a number of States.

The third review involves determining, through computer comparisons, to what extent individuals are receiving duplicate public assistance payments from one or more jurisdictions under the same or different assistance program.

Our overall objectives are to assess the quality of Federal and State public assistance files and recommend improvements to facilitate inter-program and interjurisdictional matching as a management tool for reducing erroneous welfare payments on a continuing basis.

To date, we have made intra- and interjurisdictional matches of the AFDC rolls of New York City and its adjoining counties of Nassau, Suffolk, and Westchester. We have also matched Puerto Rico's food stamp roll with New York City's and the three counties' AFDC rolls.

This work has revealed a substantial number of matching social security numbers.

We also found that in all these jurisdictions many recipients did not have social security numbers, although numbers are required by the Social Security Act.

Mr. Chairman, this concludes our statement.

We will be happy to answer any questions that you or other members of the subcommittee might have.

Mr. WYDLER. Mr. Chairman, may I just ask a question about the testimony?

Mr. FOUNTAIN. We were planning to hear Dr. Bendick first and then question the witnesses.

If you have just one question, please ask it.

Mr. WYDLER. I don't want to get into the philosophy of the statement. I just want to make sure that I understand it.

The last statement you made about the matches you've made: What have you done with the information?

Mr. MARTIN. We have just recently started this review. Information developed on potential matches will be given to welfare agencies in New York City, the three counties, and the Commonwealth of Puerto Rico to help them identify people receiving erroneous duplicate assistance payments.

Mr. WYDLER. This paragraph from your statement reads like this is something you've done.

Now are you saying you haven't done it yet or not?

Mr. MARTIN. We have done it. We have made the matches. This is the first step in a larger review. Once the information is turned over to the welfare agencies, they will need to validate the information and take the corrective action.

Mr. WYDLER. It won't mean anything until you do that; right?

Mr. MARTIN. That's true. What we're doing now is developing and demonstrating the methodology to make this match.

Mr. WYDLER. All right. I'll pursue this later.

[Mr. Martin's prepared statement follows:]

PREPARED STATEMENT OF JAMES D. MARTIN, DEPUTY DIRECTOR, HUMAN RESOURCES DIVISION, U.S. GENERAL ACCOUNTING OFFICE

Mr. Chairman and Members of the Subcommittee, I am pleased to appear here today to comment on the management of the Aid to Families with Dependent Children (AFDC) program. I will discuss the results of our recent review of the AFDC quality control program and comment on other work we have in process relating to management of the AFDC program. The results of our review of the quality control program were contained in our report to the Congress entitled "Legislation Needed to Improve Program for Reducing Erroneous Welfare Payments" (HRD 76-164) dated August 1, 1977.

AFDC QUALITY CONTROL PROGRAM

For several years, the Congress has expressed concern about the high incidence of erroneous payments to AFDC recipients. In 1964 HEW developed a quality control program to monitor and control AFDC errors. Since then the program has been modified several times to improve its administration and effectiveness. In early 1973, 9 years after the program had been developed, 19 States still did not have operational quality control programs. Consequently, in April 1973 HEW made an abrupt change in its quality control program by introducing a fiscal disallowance provision in its regulations as a means of controlling errors. HEW established allowable error rates or tolerance levels of 3 percent for ineligibility and 5 percent for overpayments and said it would not reimburse States for payments that exceeded those levels as of July 1975. Later, States were given until December 1975 to reduce errors to those levels to avoid having funds withheld.

The fiscal disallowance provision became the center of controversy between HEW and the States. As of May 1976, 17 jurisdictions had filed suit in three separate court actions against HEW challenging the legality of the fiscal disallowance regulation. The courts ruled that HEW had the authority to establish a regulation for disallowance of Federal funds based on a tolerance level. However, in two of the three decisions, the courts went beyond the question of authority and addressed the reasonableness of the tolerance levels that HEW had established. The courts ruled that because the tolerance levels were arbitrarily established at 3 percent and 5 percent without benefit of an empirical study, the regulation was framed in an arbitrary manner, and therefore was invalid.

As a result of these decisions, on March 10, 1977, HEW revoked the fiscal disallowance provision of its quality control regulations. At that time, HEW said it was considering alternative fiscal disallowance provisions but no decision has yet been reached regarding any specific action. Thus, HEW presently lacks any means for withholding funds from States that continue to experience high error rates.

We believe the decision to establish fiscal disallowances represented a positive move by HEW in attempting to provide for better management control over the AFDC program. HEW's action effectively encouraged States to implement programs to identify error rates and reduce errors. The 19 States which in early 1973 did not have operational quality control programs accounted for more than half of the AFDC program payments. After HEW announced its intention to impose disallowances, every State, for the first time, completed the required review of sample cases and developed corrective action plans.

Since 1973 ineligibility and overpayment error rates have shown a continual decline. Nationally, these error rates declined from about 33 percent as of September 1973 to about 20 percent as of June 1976. However, error rates recently have been declining at a slower rate. Despite the error rate reduction, about $500 million a year in Federal funds is being misspent in the AFDC program. Therefore, some financial incentive is probably needed to assure that States continue to seek appropriate corrective action.

If fiscal disallowances based on State error rates are used as the incentive, then we believe the basis for the disallowance should be payment error rates rather than case error rates. In our view, the use of case error rates overstates the degree of error in the AFDC program. The case error rate was the primary indicator previously used by HEW for determining the extent of error and was to be the basis for determining any disallowances against States. Therefore, we recommended in our report that HEW base the reporting of State errors on dollar amounts rather than on case error rates. HEW concurred with this recommendation and said that they will focus on payment errors rather than case errors in future reporting.

We believe that HEW will continue to encounter problems in attempting to establish any new fiscal disallowances. We therefore recommended in our report that the Congress determine the control that would best provide the desirable financial incentive to States for reducing errors and enact appropriate legislation. In May 1977 a bill was introduced in the House of Representatives (H.R. 7153) to amend the Social Security Act to provide legislation for taking fiscal disallowances. The proposed legislation addresses two issues discussed in our report. First, the legislation provides for use of a payment error rate rather than a case error rate and second it provides for the exclusion of procedural type errors which do not necessarily affect welfare payments. Currently, the bill is with the Public Assistance and Unemployment Compensation Subcommittee of the House Ways and Means Committee for further action.

In recent years, the Congress has specifically established within the Social Security Act various penalties and incentives for improved administration and cost control for several aspects of the AFDC and Medicaid programs. Three of the more significant incentive provisions pertain to utilization control of costly institutional care under the Medicaid program, health screening for children under Medicaid and child support enforcement under the AFDC program.

As a result of congressional concern with continued reports of substantial overutilization of costly institutional care under Medicaid, a financial incentive provision was added to the program's legislation in 1972. The provision provided that payments would be reduced to States that did not satisfactorily demonstrate to HEW that they had effective programs to control utilization of institutional services.

Also in 1972, the Senate Finance Committee found that many States were not complying with legislative requirements for providing health screening and treatment services to all children eligible for Medicaid. The committee believed that establishing a penalty for failing to provide such services would underline the committee's intent that States fully implement such services.

In January 1975 legislation was enacted to authorize greater Federal participation in child support enforcement activities. Again, the Senate Finance Committee expressed its concern that States had not meaningfully implemented the provisions of existing law and thus established in the new legislation various incentives for compliance and penalties for noncompliance.

We believe that such legislative provisions demonstrate the Congress' concern for cost control and efficient administration in Federal programs and that it has used various financial incentives as means of assuring such control. To assure that States take appropriate action to keep AFDC payment errors within controllable levels may require some similar form of fiscal incentive.

Our report also addressed the reliability of HEW statements about the accomplishments of the quality control program. Since 1973, when the revised program took effect, HEW has continually reported declines in error rates. These reports have also included estimates of savings resulting from the error rate reductions.

HEW has continually overstated the accomplishments that can reasonably be attributed to error rate reductions thus detracting from the credibility of those bona fide program accomplishments. For example, in December 1976 HEW reported that between January 1974 and June 1976 the quality control program had saved about $1 billion in Federal and State funds. The savings estimates were not based on valid statistical projections and included actions which did not necessarily produce direct savings in welfare payments. Also, HEW did not consider in its estimates the administrative costs that would be associated with implementing corrective actions for reducing errors. In addition, States generally were not conducting cost-effectiveness studies before starting corrective actions, although required to do so by HEW.

HEW savings are based on comparisons, by State, of case error rates in one period with those of prior periods. These percentages are estimated from samples of welfare cases in each State and are thus subject to random variation. As a result, any difference in error rates between two periods may be statistically significant or caused solely by the random selection of sample cases for that State. For example, as discussed in our report, HEW reported that the program had generated savings of $71 million during the first 6 months of 1974 and $62 million during the second 6 months. HEW computed savings for each State that had shown reductions in case error rates. HEW did not, however, consider whether the error rate changes were statistically significant nor did it offset its estimated savings for any States which had error rate increases.

Our analysis showed that after including States with increases in error rates and considering only those States with statistically significant changes, the estimated savings computation for the two sampling periods in 1974 using HEW's method would be $26 million and $42 million compared with HEW estimates of $71 million and $62 million, respectively. These examples are used to illustrate the potential effect of not using appropriate statistical tests. The extent of overstatement would depend on the degree of error changes in each State. The greater the change, the greater the likelihood that the change could be statistically significant.

A second and perhaps more fundamental issue in the overstatement of accomplishments concerns the assumption made by HEW that there is a direct relationship between reduction in case errors and savings to the program. This assumption is incorrect because certain types of errors can be reduced or eliminated without necessarily producing any direct savings or reductions in welfare payments.

For example, Federal regulations require, as a condition of eligibility, that all AFDC recipients register for work incentive training unless specifically exempted. Welfare payments to persons not registered was a major source of error in five of the seven States we reviewed. The corrective action taken by the States to reduce this type of error was designed to get the persons properly registered to avoid removing them from the welfare rolls. While this action would result in reduced errors, many cases would continue to receive welfare payments and no cost reduction would result from it. We recognize that from a management viewpoint this type of error should receive the States' attention, but no direct savings should necessarily be attributed by HEW to their reduction.

Also, several States have revised agency policies as a means of reducing errors. Many errors were occurring in computing basic budgetary allowances, particularly in determining the amount of shelter and utility costs to be included in the recipients' grants. Several States have taken action to reduce these errors by basing the amount to be included in the grant for shelter and utilities on a standard allowance rather than an individual recipient's need. The use of such a standard greatly reduces the likelihood of making computation errors. However, while such action can reduce the incidence of error, it does not necessarily reduce program cost.

As stated previously, in computing the savings estimates, HEW did not consider the administrative costs associated with corrective actions. We believe consideration of these costs is particularly important in view of the increasing administrative costs of the AFDC program. In fiscal year 1974, total costs of State and local program administration were about $700 million. In fiscal years 1975 and 1976 such costs had risen to over $1 billion, an increase of about 48 percent.

Also, the States we visited generally were implementing corrective actions without determining their cost effectiveness. HEW has recognized the need for cost effectiveness studies by requiring that States perform such analyses in conjunction with their corrective action program. HEW's quality control manual states that a thorough cost-benefit study of corrective actions is necessary for management to determine whether to commit agency resources for detailed development and implementation of any particular action.

We recommended that HEW revise its basis for determining program accomplishments by (1) determining savings on the basis of valid statistical projections, (2) considering only those error reductions that directly result in reduced program costs and (3) accounting for the increased administrative costs of implementing corrective actions. We also recommended that HEW assist the States in identifying cost-effective corrective actions.

HEW generally agreed with our recommendation on the reporting of accomplishments and stated that it would seek ways of obtaining the necessary data to better refine its reporting.

Regarding our recommendation for giving assistance to States, HEW said it is constantly striving to make its work in this key area more effective. HEW cited several ways it had provided assistance. In particular HEW said it issued several documents to States describing techniques for reducing errors and it encouraged States to adopt these techniques. Although such publications have value in providing a forum for ideas among States, many aspects of the AFDC program differ widely among States. Thus, techniques adopted by one State are not necessarily readily adaptable to other States.

We believe that HEW should focus on directly assisting those States having the greatest difficulty in reducing errors. HEW should (1) concentrate on identifying States' corrective actions that have been effective and (2) determine whether the same actions would be appropriate for States that have been unsuccessful in reducing errors and, if so, assist them in implementing such actions.

OTHER WORK IN PROCESS

We currently have in process three other reviews which relate to AFDC management.

One review involves a review of the optional provision of the AFDC program which allows States to provide emergency assistance to needy families with children. The fieldwork on this review has been completed. Our objectives were (1) to determine why only about half the States elected to participate in the program and (2) to evaluate Federal and State program administration.

We reviewed the operation and administration of the program in the District of Columbia, Maryland, New York, and Ohio. In addition, we obtained and analyzed information about the program and its problems nationally.

Our preliminary findings, which are subject to revision, are that operation and administration of the program have been hindered by conflicting interpretations of the enabling legislation by HEW, the States, and the courts. The conflicts pertain to recipients' eligibility and the type and extent of emergencies covered.

HEW has allowed the States wide latitude in developing State plan provisions for emergency assistance. Consequently, HEW has approved State plans containing restrictive eligibility and coverage provisions.

One effect of this policy has been about 40 court cases challenging the legality of State plans containing restrictions on eligibility and coverage. In some cases, the courts upheld restrictions on eligibility and coverage and in other cases, they did not. As a result of adverse court decisions, States have found they cannot rely on instructions and interpretations from HEW in determining what type emergency assistance plan is permissable. Further, States have found it difficult to operate the program based on conflicting court opinions. Faced with this situation, some States have dropped out of the program.

As of September 1977, 26 States were not participating in the program--11 because of problems they perceive in the enabling legislation, 9 because they provide emergency assistance through some other program, and 6 because they lack State matching funds.

Conflicting interpretations of the enabling legislation led to a November 1976 U.S. Court of Appeals ruling requiring HEW to draft new program regulations based on the court's interpretation of the enabling legislation and the intent of the Congress. HEW does not agree with the court's interpretation and, in April 1977, filed a petition with the U.S. Supreme Court seeking a reversal of the decision.

HEW's administration of the program has also been adversely affected by the lack of a definitive HEW policy and conflicting court decisions. Adverse effects include lengthy delays in approving State plans necessitating retroactive approval, disputes over the allowability of State expenditures, and questionable uses of funds.

We believe HEW is responsible for taking timely and appropriate actions, including seeking clarifying legislation, when it cannot effectively administer a program because of problems in the enabling legislation.

HEW has not done this. Ten years after the Emergency Assistance Program was enacted into law, HEW and the courts are still contesting the provisions of the law and the intent of the Congress. Due to its inaction, HEW is now faced with a court-imposed solution which it opposes.

Another review we just recently started involves administrative costs of the AFDC program. The Social Security Act authorizes the expenditure of Federal funds to assist States in administering public assistance programs, including the AFDC program. There is no ceiling on the total administrative costs which can be claimed for reimbursement. State expenditures for administering the AFDC program have increased from $322 million in 1970 to over $1 billion in 1976 and are estimated to be $1.4 billion in 1977.

San Diego County, California, recently completed a detailed analysis of its own welfare administrative procedures. The County concluded that, through better use of its staff and computers, less staff would be needed and the county's AFDC administrative expenditures for fiscal year 1977 could be reduced by about 26 percent or $2.4 million, about half of which is Federal funds. County officials told us that so far minimal interest has been shown by Federal and State officials in the techniques used and the feasibility of applying the study approach to other States or counties.

Since the potential for nationwide administrative cost savings is substantial by applying the San Diego study methodology, we are testing and refining this methodology in another California county to determine the feasibility of applying it in reviews in a number of States.

The third review involves determining, through computer comparisons, to what extent individuals are receiving duplicate public assistance payments from one or more jurisdictions under the same or different assistance program. Our overall objectives are to assess the quality of Federal and State public assistance files and recommend improvements to facilitate inter-program and inter-jurisdictional matching as a management tool for reducing erroneous welfare payments on a continuing basis.

To date, we have made intra- and inter-jurisdictional matches of the AFDC rolls of New York City and its adjoining counties of Nassau, Suffolk, and Westchester. We have also matched Puerto Rico's food stamp roll with New York City's AFDC roll. This work has revealed a substantial number of matching social security numbers. We also found that in all these jurisdictions many recipients did not have social security numbers, although numbers are required by the Social Security Act.

We plan to expand our work to make similar comparisons in other States as well as to match AFDC tapes of the selected States to the Social Security Administration's SSI eligibility tapes to identify individuals receiving benefits from both programs.

Mr. Chairman, this concludes our statement. We will be happy to answer any questions that you or other Members of the Subcommittee might have.

Mr. FOUNTAIN. Dr. Bendick, please proceed.

STATEMENT OF MARC BENDICK, JR., PH. D., THE URBAN INSTITUTE, WASHINGTON, D.C.

Dr. BENDICK. Thank you, Mr. Chairman.

I am Marc Bendick, Jr., an economist at the Urban Institute, a nonprofit policy research center here in Washington.

In my testimony, I would like to pick up on an important point made by the General Accounting Office, namely, the need for cost-effective targeting in corrective actions.

Under the pressure of fiscal sanctions, the States have undertaken a wide variety of corrective actions—revising policies, retraining staffs, installing computers, reorganizing departments. A few of these actions have been ill targeted or excessively expensive, but the predominant pattern has been that of effective actions and a favorable ratio of dollar savings to dollars invested. In fact, today there is substantial underinvestment by most States in actions to reduce errors. States often are penny-wise and pound-foolish, missing opportunities where spending a little more on administration would save many times the amount invested through reduced payment errors.

I would like to illustrate this point by describing five specific strategies for error reduction in which States are underinvesting.

These five actions alone, if fully implemented, would cut the national case error rate roughly in half—from a little over 20 percent to about 10 percent.

At the same time each of these corrective actions would pay for itself many times over. For all five actions together, net savings to Federal and State governments would total approximately $500 million a year.

These estimates are based on statistical analysis of the experience of States which have already implemented these approaches. The projected savings are available simply from implementing nationwide the most successful and cost effective of existing State practices.

The first of the five error-elimination strategies is that of reducing the large backlog of AFDC cases overdue for redetermination. Federal regulations mandate that each AFDC case be reevaluated at least once every 6 months to determine if the information governing eligibility and payments levels is still current. Such requirements make sense, given the life situation of most AFDC recipients, in which the employment situation or family circumstances changes frequently.

However, as we meet today, the average State has about 12 percent of its caseload overdue for redetermination. In the District of Columbia, nearly 70 percent of the entire caseload is overdue.

This backlog of case redeterminations is costly in terms of payment errors. The 15 States of the Union with the lowest backlog have case error rates that are less than half those in the 15 States with the highest backlog. If all States brought their backlog down to the current level existing in the 15 best States, the national case error rate would fall about 3 percentage points. Over one-tenth of all remaining case errors in the Nation would be eliminated.

Bringing down a backlog of overdue redeterminations is neither difficult nor expensive. In the city of Baltimore, a crash program of redeterminations was accomplished simply by offering overtime hours to existing staff. The Baltimore approach could be repeated nationwide for about $6 million. Once that was accomplished, AFDC payment errors would decrease about $80 million per year. The cost of the overtime would be recouped in less than 1 month.

A second strategy for cost-effective error reduction involves helping AFDC clients fulfill their reporting responsibilities. About 5 percent of all AFDC cases in the Nation contain nonfraudulent client errors. These are cases which are incorrect due to failure by the AFDC recipient to report promptly and accurately, but on which there was no willful attempt by the client to mislead the agency.

An important source of that type of error is reading and comprehension difficulties which AFDC recipients have with public assistance documents.

About 75 percent of AFDC clients possess reading skills of, at most, an eighth-grade level. Yet the majority of forms they're asked to fill in, notices they receive in the mail, and explanatory pamphlets they're given are written at a much more advanced level. Only about 1 in 10 is comprehensible to an eighth-grade reader, while over one-third require the reading skills of a college student. When an AFDC client cannot comprehend the rule booklet which explains his reporting responsibilities, and cannot decipher the form on which he is supposed to report, small wonder that many questions are not answered promptly and accurately.

If documents and procedures were revised to close this literacy gap, about a 2-percentage-point reduction could be obtained in the national case error rate, and about $120 million a year in erroneous payments could be averted.

A third strategy for error reduction focuses on the eligibility worker—the person who sits across the desk from the AFDC client and processes her claim. Typically, these people have 2 years of college education. They stay with the public assistance agency only a few years, and they usually receive only on-the-job training—not formal classroom training—in learning their duties.

AFDC is a complicated program. The State's rule manual is typically hundreds of pages long, and the numbers of forms and procedures required to process a case is large.

Being an effective, probing interviewer involves learning specific interviewing skills. On-the-job training alone cannot adequately equip a new employee to function effectively.

Some States do not rely solely on on-the-job experience. In Florida, for example, new workers are given 4 weeks of formal training prior to reporting to their jobs, and they must pass a proficiency test before graduating. Florida's error rate is about one-third lower than the national average.

There is already on the books a Federal requirement that all new AFDC workers be given orientation training. Unfortunately, in many States, that requirement in practice amounts to an hour's briefing on how to fill out timesheets and a punch and cookie reception with the head of the department. If the requirement were reinterpreted to mandate substantial classroom education for new workers, the investment would pay for itself many times over. Training activities nationwide would be increased 50 percent for about $8 million. That increase in expenditures would, in turn, save about $100 million per year in payment errors avoided and reduction in other administrative costs.

The fourth strategy we propose against AFDC error concentrates on simplifying eligibility determination and benefit computation rules. A main selling point of President Carter's proposed program for better jobs and income is that it would eliminate many archaic, overly complex, and difficult to administer rules which now plague AFDC. But within the AFDC program itself, many States have already made great strides in streamlining.

For example, in former years, the usual way to determine the payment an AFDC case would receive was to work out a detailed budget for exactly how much the family would need—for rent, utilities, food, transportation, clothing, furniture, and so forth. About 70 percent of States have replaced detailed budgeting of clients' needs with a consolidated grant standard—for example, $300 per month for any family of four.

If all States in the Union were to adopt program rules as simple as those in force in the most streamlined States, the national case error rate could be cut over 4 percentage points and the savings in reduced payment errors and reduced administrative costs would amount to about $150 million per year.

Our fifth and final proposed strategy against error involves the use of advanced technology available in this age of the computer. Several States have developed sophisticated techniques of case management in which those AFDC cases most subject to errors are flagged for special treatment. For example, cases involving earned income are likely to have more frequent changes in income and, therefore, might be asked to update the case information monthly. Other cases might be asked to update only once every 6 months. Cases with the father reported absent without a formal divorce might be given an investigatory home visit, while others might not.

The general pattern is to vary the intensity of case investigation so that error-prone cases are given all the investigation they require while money is not wasted on over-elaborate handling of routine cases.

Implementation of these selective action case management systems involves analysis of quality control statistics, development of computer systems, and rethinking of operational policies.

We examined the performance of three of the States which have done the most pioneering work in this direction—West Virginia, South Carolina, and Texas—and discovered that they persistently outperform other States. If all States were to implement the technology demonstrated by States such as these three, the national case error rate would be cut about 3 percentage points and the savings in payment errors would amount to about $80 million per year.

Taken together, the five strategies I have just described would cut the national case error rate approximately in half and would save about $500 million a year.

What will it take to get these actions implemented?

The most powerful force working for implementation is State self-interest. Erroneous AFDC payments waste State money, as well as Federal. Each of the actions we've outlined is cost-effective not only from the point of view of Federal money saved but also from the point of view of State shares of savings and outlays. Given guidance as to which corrective actions are cost-effective, many States will carry forward on their own. However, an aggressive HEW role in identifying these actions and helping to convince State decisionmakers may be highly important.

For States which are reluctant to act, HEW regulations can also play a persuasive role. We have already noted Federal requirements currently on the books for worker training and periodic redetermination. More vigorous enforcement of these requirements can involve considerable diplomacy but can be achieved. Additional regulatory or statutory provisions may also help in some cases.

Finally, HEW is in an excellent position to provide some basic research and development and technical assistance to States, more extensively and more relevantly than has often been true in the past.

It is clear from the findings we are presented today that substantial potential improvements in the AFDC error record remain to be harvested. Priority should be given to achieving nationwide implementation of cost-effective corrective actions currently in place in high-performance States. In achieving nationwide implementation, HEW must play a central and aggressive role.

I would be glad to answer any questions that you may have.

[Dr. Bendick's prepared statement follows:]

PREPARED STATEMENT OF MARC BENDICK, JR., PH. D,[1] THE URBAN INSTITUTE, WASHINGTON, D.C.

Avoiding payments to ineligible persons and payments in incorrect amounts is an important responsibility for states and localities distributing benefits under the program of Aid to Families with Dependent Children (AFDC). That error rates nationwide have fallen from 41.1 percent of cases in the first half of 1974 to 22.4 percent in the first half of 1976 shows considerable progress.

However, these rapid reductions in error rates raise three important questions:

- First, states and localities have undertaken multitudes of corrective actions during this period. Which of these actions have contributed to the reduction, and which have not?[2]
- Second, while error rates have gone down, administrative costs have gone up. Are reductions in payment errors being achieved at the expense of increases in cost which exceed the savings?[3]
- Finally, while most states and localities have reduced errors substantially, other jurisdictions have experienced rising error rates. Even where error rates have fallen, substantial error persists. What future corrective actions can be undertaken which would prove effective and cost-effective against remaining problems?

Under a grant from the Department of Health, Education, and Welfare, The Urban Institute has performed research seeking answers to these questions. We statistically analyzed the actual experiences of the fifty states and the District of Columbia over the past two and a half years. I would like to present to you today five specific strategies for obtaining further elimination of error which derive from that research.[4] We estimate that these five actions, if fully implemented, would cut the national case error rate roughly in half, reducing it from about 22 percent to about 10 percent. At the same time, we estimate that each of these corrective actions would pay for itself many times over; for all five actions together, net savings to federal and state governments from payment errors avoided would total approximately half a billion dollars per year.[5]

These estimates, it should be reiterated, are based on actual historical experiences of states which have already implemented these five approaches, at least in some form; the projected savings are available simply from implementing nationwide the most successful and cost-effective of existing state practices and do not require radical or untried innovations.

STRATEGY ONE: REDUCING BACKLOG

The first of our error-elimination strategies is that of reducing the large backlog of AFDC cases currently overdue for redetermination of eligibility.

Federal regulations mandate that each AFDC case be reevaluated at least once every six months to determine if the information governing eligibility and payment levels is still current.[6] Such requirements make sense, given the life situations of most AFDC recipients in which employment situations, family composition, and household circumstances change frequently.[7]

Despite the sensibleness of the requirement, and despite the existing federal regulation, many states and localities are far behind in performing redeterminations. As we meet today, the average state has about 12 percent of its caseload overdue for their six-monthly redeterminations, and in the District of Columbia, nearly 70 percent of all cases are overdue.

This backlog of case redeterminations is costly in terms of payment errors. In the first half of 1976, the 15 states in the union with the lowest backlog had case error that were less than half those in the 15 states with the highest backlog. Our statistical analysis indicates that if all states brought their backlog down to the level currently existing in the

15 best states (under 3 percent), then the national case error rate would fall about 3 percentage points; that is, over one-tenth of all remaining case errors in the nation would be eliminated.

Bringing down a large backlog of overdue redeterminations is neither difficult nor expensive. In the city of Baltimore, for example, a crash program of redeterminations was accomplished simply by offering overtime hours to existing staff. We estimate that the Baltimore approach could be repeated nationwide for about $6 million. Once that was accomplished, our analysis indicates that net AFDC payment errors would decrease about $80 million per year; the cost of the overtime would be recouped in less than a month.

STRATEGY TWO: IMPROVING READABILITY

Our second strategy for cost-effective error reduction involves giving AFDC clients some needed assistance in fulfilling their reporting responsibilities. About 12 percent of all AFDC cases in the nation contain "client errors." These are cases in which payment levels or eligibility are incorrect due to failure by the AFDC recipient to report promptly and accurately. Some of that failure to report--involving about two percent of the total caseload--represents deliberate attempts to defraud. But what about the other 10 percent of cases--the 12 percent of cases containing client errors which are not part of the fraudulent 2 percent? From where do these errors arise?

Our analysis indicates that an important source of these errors is reading and comprehension difficulties which AFDC recipients have with public assistance documents. About 75 percent of AFDC clients possess reading skills of at most an eighth grade level.[8] Yet the majority of forms they are asked to fill in, notices they receive in the mail, and explanatory pamphlets they are given are written at a much more advanced level. In the sample of documents we evaluated, only one document in ten was comprehensible to an eighth grade reader, while over one-third required the reading skills of a college student.

When an AFDC client cannot comprehend the rule booklet which explains his reporting responsibilities and cannot decipher the form on which he is supposed to report, small wonder that many questions are not answered promptly and accurately. We estimate that if rewriting of documents and revisions of procedures were undertaken to close this "literacy gap," perhaps a two percentage point reduction could be obtained in the national case error rate, and about $120 million a year in erroneous payments could be averted.

STRATEGY THREE: TRAINING WORKERS

Our third strategy for error reduction shifts attention from the eligibility client to the eligibility worker, the person who sits across the desk from the AFDC client and processes her claims. Typically, these people have two years of college education; they often stay with the public assistance agency only a few years; and they usually receive only on-the-job training, not formal classroom training, in learning their duties.

It is this last factor--worker training--on which our proposed strategy focuses. AFDC is a complicated program, with many different types of recipient situations and many rules applicable to each. A state's rule manual governing the program is typically many hundreds of pages long, and the number of forms and procedures required to process a case is large.[9] Furthermore, being an effective, probing interviewer and understanding and communicating well with AFDC clients involves specific information and skills, not just everyday common sense. It is difficult to believe that on-the job training alone can adequately equip a new employee to function effectively.

Some states do not in fact rely solely on on-the-job experience; they provide new workers with extensive and sometimes rigorous classroom training. In Florida, for example, new workers are given four weeks of formal training prior to reporting to their jobs, and they must pass a proficiency test before graduating;[10] Florida's error rate is about one-third lower than the national average.

There is already on the books a federal requirement that all new AFDC eligibility workers be given "orientation training."[11] Unfortunately, in many states, that requirement in practice amounts to only an hour's briefing on how to fill out time sheets and a punch-and-cookie reception with the head of the department. If that requirement were reinterpreted to mandate substantial classroom education for new eligibility workers, the investment in education would pay for itself many times over. Our statistical analysis of the experience of states like Florida indicate that training activities nationwide could be increased by 50 percent for about $8 million. That increase in expenditures would in turn save about $100 million per year in payment errors avoided and reductions in other administrative costs. It would also cut the national case error rate over one percentage point.

STRATEGY 4: SIMPLIFYING RULES

The fourth strategy we propose against AFDC error concentrates on simplifying eligibility determination and benefit computation rules.

One of the main selling-points of President Carter's proposed Program for Better Jobs and Income is that it would eliminate many archaic, overly complex, difficult-to-administer, and inequitable detailed rules which now plague AFDC. But within the AFDC program itself, many states have already made great strides in streamlining. For example, in former years, the usual way to determine the payment an AFDC case would receive monthly was to work out a detailed budget for exactly how much the family would need--for rent, utilities, food, transportation, clothing, furniture, and so forth. About 70 percent of states have replaced detailed budgeting of clients' needs with a "consolidated grant standard" (e.g., $300 per month for a family of four). Another aspect of AFDC benefit computation which can be highly complex is deduction from earned income of work-related expenses; again many states have replaced detailed declarations of actual expenses with simple formulas (e.g., 20 percent of gross income).

Our statistical analysis indicates that if all states in the union were to adopt program rules as simple as those in force in the most streamlined states, then the national case error rate could be cut over four percentage points, and the savings in payment errors avoided and reduced administrative costs would amount to about $150 million per year.

STRATEGY FIVE: DEVELOPING SELECTIVE ACTION SYSTEMS

Our fifth and final proposed strategy against error involves increasing the use of advanced technology available in this age of the computer. In the past few years, several states have developed sophisticated techniques of case management in which those AFDC cases which are most subject to eligibility and payment errors are flagged for special treatment. For example, cases involving earned income are likely to have frequent changes in income and therefore might be asked to update their case information monthly, while cases without earned income would be asked to update only once every six months. Cases with the father reported absent without a legal separation or divorce might be given an investigatory home visit, while other cases might not. Cases with extra complexity might be assigned to an "elite" team of eligibility workers who have been given special training and reduced workloads. The general pattern is to vary the intensity of verification, the frequency of recertification, and other allocation of administrative resources so that "error prone" cases are given all the resources they require but administrative money is not wasted on overly elaborate handling of routine cases.

Implementation of these "selective action" case management systems involves analysis of quality control results, development of computer systems, and reorganizing staffs and rethinking operational policies. Our statistical analysis indicates that there exists a very high payoff to these efforts. For example, we examined the performance of three of the states which have done the most pioneering in this direction--West Virginia, South Carolina, and Texas[12]--and discovered that they persistently outperform what other states were able to achieve at the same cost. We estimate that if all states were to implement the technology demonstrated by states such as these three, the national case error rate could be cut about three percentage points, and the savings in payment errors avoided would amount to about $80 million per year.

IMPLEMENTING THESE STRATEGIES

Taken together, the five strategies I have just described would cut the national case error rate approximately in half, from about 22 percent to about 10 percent. They would save about $500 million per year. Those numbers make it worthwhile to examine closely what it would take to get these actions implemented.

The most powerful force working for implementation is states' self-interest. Erroneous AFDC payments waste state money as well as federal.[13]

Each of the actions we have outlined is cost-effective not only from the point of view of total federal and state money saved but also from the narrower point of view of individual state savings and state outlays. Given the guidance which our research provides as to which corrective actions are cost-effective, many states will carry forward on their own. Additionally, HEW assistance in helping to convince state decisionmakers--welfare administrators, state legislatures, and budget bureaus--will be highly important in some states.

For states which are reluctant to act, HEW formal requirements can also play a persuasive role. We have already noted federal requirements currently on the books for worker training and periodic redeterminations. More vigorous enforcement of these requirements can involve considerable diplomacy but can be achieved. Additional regulatory or statutory provisions may also help in some cases; in particular, federal statute may be the easiest way to achieve some aspects of rule simplification.

Finally, HEW is in an excellent position to provide some basic research and development and technical assistance to states. This is true particularly in the case of developing selective action case management systems.

Given a cooperative approach between federal and state agencies, substantial dollars savings can be achieved, substantial increases in the public credibility of AFDC can be obtained, and excessive rises in administrative costs can be avoided. The future agenda of corrective action should simply be this: to implement nationwide the high quality, cost-effective corrective actions currently in place in high-performance states.

NOTES

1. Opinions expressed in this statement are my own and do not necessarily reflect those of the Department of Health, Education, and Welfare, (which partially sponsored the research reported here), The Urban Institute, its trustees, or its other research sponsors.

2. The following table indicates the extent to which the 54 AFDC jurisdictions (50 states, the District of Columbia, and 3 territories) have undertaken various common types of corrective actions, as of June 1976:

Corrective Action	Percent of all AFDC Jurisdictions Reporting this Action
Revised Policy and Procedure	98%
Increased Verification	93
Improved Staff Training	91
Improved Client Communication	78
Implemented Data Exchange Systems	63
Improved States Management Systems	56
Developed Profiles of Error-Prone Cases	52
Implemented Consolidated Standard	48
Implemented Special Child Support Unit	35
Improved WIN Controls	35
Increased Eligibility Worker Staff	31
Implemented Local Supervisory Reviews	28
Implemented Special Initiatives re Fraud	24

For more on states' AFDC administrative practices, see Toby H. Campbell and Marc Bendick, Jr. A Public Assistance Data Book. Report 5092-02. Washington: The Urban Institute, 1977 (forthcoming).

3. This point was particularly raised by the Subcommittee on Oversight of the Ways and Means Committee, U.S. House of Representatives (see HEW Efforts to Reduce Error in Welfare Programs (AFDC and SSI), Hearings of April 29 and May 3, 1976) and by the Comptroller General (see Legislation Needed to Improve Program for Reducing Erroneous Welfare Payments. HRD-76-164. Washington: General Accounting Office, August 1, 1977).

4. For the analysis underlying conclusions presented here, see Marc Bendick, Jr., Abe Lavine, and Toby H. Campbell. The Anatomy of AFDC Errors. Report 5902-01. Washington: The Urban Institute, 1977 (forthcoming).

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5. All figures on payment errors refer to payments to ineligible cases plus erroneous underpayments. Estimates of savings presented here are conservative in that they include only erroneous AFDC payments avoided. Because AFDC recipients are automatically eligible for Food Stamps, Medicaid, and some social services, elimination of ineligibles from the AFDC rolls would also reduce expenditures in these other programs.

6. See 45 Code of Federal Regulations 206.10(iii).

7. While periodic recertification certainly makes sense, applying the same six-month recertification period to all cases may not be ideal. Some cases should perhaps be reexamined monthly, while others may require only annual checking. This approach is discussed further in strategy five, below.

8. See Marc Bendick, Jr., and Mario G. Cantú, "The Literacy of Welfare Clients," *Social Service Review*, 1978 (in press).

9. In Alaska, to take an extreme example, processing an AFDC application involves 21 forms totaling 40 pages.

10. See *Managing a State Income Maintenance Staff Training Program: Florida, Texas*. SRS-75-21222. (Washington: Social and Rehabilitation Service, U.S. Department of Health, Education, and Welfare, 1975).

11. See *45 Code of Federal Regulations* 205.202(a).

12. For descriptions of the systems in these three states, see *Automated Eligibility Redetermination System/Error-Prone Profile Project Workshop Proceedings, September 27-29, 1976* (Austin: Texas State Department of Public Welfare, 1977), and *Use of Error Profiles and Management Controls for Improving Program Operations: West Virginia*. SRS-75-21231. (Washington: Social and Rehabilitation Service, U.S. Department of Health, Education, and Welfare, 1975).

13. Federal financial participation in AFDC benefits range from 50 percent to about 75 percent. Our statistical analysis indicated that the higher the state's share of benefit payments, the lower the error rate; this exemplifies states responding to their own financial interests.

Mr. **Fountain**. Thank you both, Mr. Martin and Dr. Bendick, for very informative statements which raise more questions than we can ask in the time available. But we'll do the best we can to get to the meat of some of them.

Mr. Martin, your statement—and more fully, the Comptroller General's report of August 1, 1977—outlines the history of the AFDC quality control program.

As noted, the courts last year invalidated HEW's fiscal disallowance provision on the grounds that the established tolerance levels of 3 percent for ineligible cases and 5 percent for overpayments were arbitrary.

The courts did not question HEW's authority, as I understand it, to withhold funds from the States in instances of improper AFDC payments.

That's correct, isn't it?

Mr. **Martin**. Yes, sir.

Mr. **Fountain**. Now if I understand GAO's position correctly, it is that Congress should enact appropriate legislation authorizing HEW to make fiscal disallowances based on payment error rates, rather than case error rates. Is that right?

Mr. **Martin**. Yes, sir.

Mr. **Fountain**. And GAO also recommends that procedural-type errors that do not necessarily affect welfare payments be excluded.

Mr. **Martin**. Yes, sir.

Mr. **Fountain**. Is that a correct description of GAO's position on financial incentives, or, as some might express it, "sanctions"?

Mr. **Martin**. Yes; that's essentially correct. We don't think the administrative areas that don't impact on savings should be included in any report that HEW would present in determining savings from a quality control program.

Mr. **Fountain**. You state on page 4 of your statement that HEW probably will continue to encounter problems in attempting to establish any new fiscal disallowances.

Does GAO endorse the bill, H.R. 7153, which specifically authorizes fiscal disallowances for excessive errors in AFDC administration?

Mr. **Martin**. Yes, sir. Conceptually we do.

Mr. **Fountain**. Short of new legislation, how can there be the "desirable financial incentive" for the State error reductions which you seek?

Mr. **Martin**. I don't really see any way. Based on the problems they've had with what they've tried to do, I do not believe that, without some type of empirical study that would present data the courts would sanction, HEW could do it.

So I think the legislation is needed.

Mr. **Fountain**. What techniques in error reduction show promise of being cost-effective universally in every State? Which ones apply only to certain States?

Mr. **Martin**. I really think that Dr. Bendick has presented five areas which HEW needs to concentrate on. There may be others.

I don't know that any of those would not apply to any specific State. I think it's pretty much an across-the-board problem. And all the States are probably facing the same type of problems.

Mr. **Fountain**. If the Congress were to enact legislation providing for fiscal disallowances, should the States be penalized for erroneous payments made as a result of client errors and fraudulent representations?

Mr. Martin. Yes, sir; because I think HEW has a responsibility to be sure that the information provided by clients is accurate. They can do that through the redetermination process and followup visits and that sort of administrative action.

Mr. Fountain. We've heard testimony that it is much easier to avoid errors in a rural or relatively smaller community setting than in a large city like New York. Does GAO recommend taking these differences into account in establishing a disallowance policy?

Mr. Martin. No, sir; I really don't think so. I think that the rate should be uniform and all States should be subject—and all areas should be subject—to the same disallowance rates.

Mr. Fountain. You noted GAO's belief that HEW should focus on directly assisting those States having the greatest difficulty in reducing error rates.

I'd like to ask you, and also Dr. Bendick, whether either of you detected a desire on the part of the States for HEW technical assistance?

In this connection, I might say that the committee has heard testimony on the need for HEW leadership in developing a model AFDC manual, as well as assistance in standardizing forms and administrative procedures, which the Congressional Research Service survey showed are terribly complex in many States.

Dr. Bendick. I believe the States are interested in technical assistance from HEW when it is of high quality. Too often in the past what has come from HEW as technical assistance has been broad generalities which were not terribly applicable to the specific problems the States had. When it has been of high quality, the States have paid a great deal of attention to it, and I believe they are interested in future expansions of those efforts.

Mr. Fountain. Mr. Martin, do you want to comment on that?

Mr. Martin. I would agree that the States are interested in receiving technical assistance from HEW. This is a very complex program, and the problems are large. I think they are interested; yes, sir.

Dr. Bendick. I would like to add that States are particularly anxious to receive guidance of the kind that I've tried to provide in my testimony this morning as to which corrective actions make sense—which are the ones that are likely to be cost-effective. Very often their own State's experience is too limited for them to determine what is a fruitful direction for them to move corrective action, and they would like much more pooling of the experience of other States in suggesting to them directions to take corrective action. They don't want any mandatory guidance, but they do want more information.

Mr. Fountain. Dr. Bendick, you presented a very concise and helpful set of administrative approaches for error reduction and, consequently, potential cost savings in the AFDC program.

I think it's particularly interesting that you and Mr. Martin have both emphasized that while error rates have been reduced during the past several years, administrative costs have increased substantially. This, of course, raises the question of the cost-effectiveness of the quality control program.

Our committee print, on page 129, shows that the greatest increase in administrative costs occurred from 1974 to 1975 when the increase was $334 million, or 48 percent, which is a hefty increase. This was also pointed out in Mr. Martin's statement.

In that same period, the AFDC caseload increased 9 percent while the number of applications handled rose by 19 percent.

I would appreciate it if both of you, on the basis of your independent studies, would comment on the reasons for that 48-percent increase in administrative costs at a time when the AFDC workload was rising only moderately.

Dr. BENDICK. There's a great variation among the States in how much they spend on AFDC administration. The average State spends about $250 per case per year running their AFDC program. Nevada is a classic example of a State which is probably overinvesting in administration. It spends over $500 per year per case. It spends approximately 20 percent of AFDC total program funds on administration, and that is probably excessive.

However, excessive administrative expenditures, such as exemplified by Nevada, are the exception rather than the rule. The rate of increase of administrative costs per case, after you've subtracted out the effect of overall inflation in the economy, has only been about 4 percent per year for the average State. That seems to me a relatively moderate increase, particularly in an era in which we have seen such substantial reductions in AFDC errors. So I think that while we must always look at the cost-effectiveness of individual corrective actions, and while I advocate incorporation of administrative costs explicitly into the same sort of quality control audit framework that we now have on error rates, I don't think that runaway expenditures on administration have been the rule. I think quite the opposite. States have underinvested in cost-effective corrective actions.

Mr. FOUNTAIN. Would you care to comment, Mr. Martin?

Mr. MARTIN. I don't really have too much to add.

I think inflation has been one of the major reasons for this substantial increase.

I would just like to say that that's one of the reasons we've undertaken the review in California—to try to determine where administrative costs can be reduced.

Mr. FOUNTAIN. Dr. Bendick, you noted that while most States and localities have reduced errors substantially, other jurisdictions have experienced rising error rates.

In view of these mixed trends, it appears important to try to identify the particular policies and practices that contribute to these differing results.

However, your footnote 13 on page 10, states:

"Our statistical analyses indicated that the higher the State's share of benefit payments, the lower the error rate. This exemplifies States responding to their own financial interest."

Now the theory that self-interest assures fiscal responsibilty does, I think, underlie the establishment of matching requirements in many grant programs.

But your statement that a high State share correlates with a lower error rate doesn't seem to be borne out by New York and the District of Columbia. Both of these jurisdictions have very high error rates, as well as a high matching ratio, for AFDC.

I wonder if you would comment on this apparent discrepancy?

Dr. **Bendick**. There are many factors that go into determining the error rate in any particular jurisdiction, such as New York and the District of Columbia. The statement we made about the effect of the State matching share is an effect which it true statistically, holding all other factors constant. After you've taken account of all other factors going into the high error rates in places like New York, the less the extent to which the States are handling State money, the less they are willing to invest in tight administration.

Mr. **Fountain**. Also, in reference to your footnotes, I see that number 5 says:

"All figures on payment errors refer to payments to ineligible cases, plus erroneous underpayments."

Should that read "overpayments" instead?

Dr. **Bendick**. Yes; it should. That was a mistake.

Mr. **Fountain**. You observed that the average State has about 12 percent of its caseload overdue for 6 months eligibility redetermination, and nearly 70 percent of all cases are overdue in the District of Columbia.

Is it your opinion that adoption of the administrative improvements outlined in your statement would eliminate those backlogs without a substantial increase in present staffing?

Dr. **Bendick**. Yes, sir.

The reason that I cited the example of Baltimore was specifically to get around the problem of current staffing. State legislatures are very reluctant to authorize new staff positions, and justifiably so. The people in the State of Maryland got around that problem simply by offering overtime hours to their existing staff. The staff accepted the hours voluntarily.

Working at the rate of two redeterminations per 8 hours, even at overtime wages, the return to that investment was substantial. The State of Maryland summarized their experiences saying that they get back $20 for every dollar invested.

Mr. **Fountain**. I will yield to you, Mr. Wydler, at this point.

Mr. **Wydler**. Thank you, Mr. Chairman.

If I understand, Dr. Bendick, all you're really saying—and I'm no expert in the field, and this is the first time I have heard this—is that we have some cases and some experience with various States where they have done certain things, and they've resulted in very beneficial results to the taxpayers. We should apply those examples to the overall program and get the same results nationwide.

That's extremely reasonable, logical, thoughtful, and almost obvious. Let me ask: Why haven't we done it? Let's hear that.

Who wants to speak to that question?

Do you know why we haven't done it?

Dr. **Bendick**. One key problem—there are several—is that States run their own programs. States sometimes are not aware of what is happening in other States, and that is why I have called for a much greater and more active HEW national role in informing all the States of what is happening in the best practice States.

Mr. **Wydler.** But that's really not enough. I mean to just send down an informational bulletin and just hope for the best.

When you administer a program, it seems to me the way to do it is when you have an experience like that, you have an illustration of something that can work, you try to make it part of your policy.

Isn't that the way you make part of your rules and regulations—that this will be done?

Dr. **Bendick.** Yes, sir. In fact, in two instances—in the case of training and the case of overdue redeterminations—I pointed out that it is part of HEW policy. The problem then is that it has not been rigidly enforced. Of course, when you have independent States it is sometimes very difficult to obtain enforcement of those policies, but those policies are on the books.

Mr. **Wydler.** Of the five things you mentioned, which would you consider the most important?

Dr. **Bendick.** I think the numbers speak for themselves. Approximate financial returns from each of the five policies is listed for each. They range from about $80 to about $120 million.

Mr. **Wydler.** Mr. Martin, could I go back a minute to that question I was asking you about what you have done? I am particularly interested in what you have done in Nassau County. That's where I come from, as a matter of fact.

That will help me to understand what you have done overall. But just tell me, for instance, what have you done in relation to Nassau County regarding these intra- and interjurisdictional matches? What does all that mean?

Mr. **Martin.** To put it in perspective, this is the initial phase of a review that we plan to undertake and to broaden to other States.

What we're trying to do in New York and the surrounding counties is to develop and demonstrate a methodology of making the match of social security numbers on various welfare rolls.

If we can identify people potentially receiving duplicate payments, then we will turn that information over to the welfare agency so that they can either reduce the payment or eliminate the person from one or both of the welfare rolls.

In New York itself, in the intra-New York match, we have given that information to New York; they are analyzing similar data which they developed and, to date, they have identified either duplicate payments or erroneous payments sufficient to either eliminate or reduce those payments about $0.5 million a year.

Now in intermatch between Nassau County and New York City, we have turned that information over to them to start taking the corrective action.

Now once we have gone through this process in New York and in Puerto Rico, we will expand to other States and make the same match and turn that information over to the various welfare agencies so that they can take corrective action.

Mr. **Wydler.** But you don't know what they're going to do with the information, if anything, do you?

Mr. **Martin.** I think that's part of the process. Once we turn it over, we talk to them to find out. We report it to the Congress and to the HEW so that they can follow up, we can follow up, and the Congress can follow up through a process of hearings if they would see fit, in terms of what action is being taken.

So it's not something that—

Mr. Wydler. Are you people geared up to do a job like this on a continuing basis? You're going to go all over the country making these matches.

Mr. Martin. No, sir. I think once we make the initial pass and demonstrate that it is a feasible methodology and it is cost effective and productive in terms of reducing erroneous welfare payments, we would then make a recommendation to HEW that the type of methodology be developed and made available to the States so that they can come to SSA for that type of match.

It would be a continuing program that would have to go on.

A one-time match in New York and Nassau County isn't a lot of good unless you do that periodically. So the system would have to be established within HEW so that that type of match could be made.

Mr. Wydler. The initial match is going to be the way you're going to catch a tremendous number of these duplications, because it has never been done.

Mr. Martin. That's true.

Mr. Wydler. They're piling up and piling up. You come along and clean the house. When you do it a year later, you're not going to catch many people because, first, they were warned that it was going to happen so they don't try it and there aren't that many building up in the course of a year. So the second time around your returns are going to be a great deal less than they were the first time.

It seems to me what you need is a system where, as soon as a number is stuck into it, you get a reject from the system.

You have all these computers and you can take the material and match them. I don't know the mechanics of a computer system, but it seems to me that you can devise a system that from some point forward when you stick the number into the system it will come back saying, "Already in," or something like that. Or: "Watch this one. This looks like a duplicate."

That would be the way to do it. Then you wouldn't have to sit down and try to match everything every 6 months or so.

Mr. Martin. That would certainly be the ideal system. Pending that, we feel it is important that these matches be done periodically, pending the establishment of that type of online system.

That's really what you're asking.

Every time someone applies for welfare his social security number goes into the system and would either be accepted or rejected by SSA.

Mr. Wydler. It seems to me what you're doing depends on the machines. Already without the machines you can't do it, so you already have the data you need from the machines; and now it's a question of trying to make the machines work in a coordinated manner so they will give you the answers beforehand.

That isn't possible to do?

Mr. Martin. I certainly don't have the technical expertise to tell you whether the computer can do that or not. I see no reason why it shouldn't be.

I guess the problem would be the volume and the lag time of getting information back so that a welfare recipient's payment can be approved or disapproved.

Whether or not you would want to delay payment until that can be done or not is the question.

Mr. Wydler. We had a story here in the Washington paper yesterday which was really great, Mr. Chairman. I'd like to feel that somehow our subcommittee had something to do with that.

It dealt with past dealings on the student loan program, regarding how they caught up with these people that are working right at HEW. I didn't find any that were working in the student loan program, I hope. [Laughter.]

Maybe in the enforcement division.

But they found a whole bunch of these people sitting there with these defaulted loans and ripping off the Government.

I don't know; did that come about by computer matches? Or how did they get that?

I didn't quite understand how that worked?

Mr. Martin. I don't know.

Mr. Wydler. Nobody seems to know.

However it worked, I wish we'd keep following up on these things because these programs are going to stop a lot of these people that just simply want to rip off the Government.

Mr. Fountain. We took some testimony in this area of student loans, and I think that was one of the pieces of evidence—along with all of the other evidence—which prompted the subcommittee to recommend the enactment of the law establishing the office of inspector general.

Mr. Wydler. Yes.

I do hope, now you've brought it up, Mr. Chairman, that we'll move forward with that legislation without undue delay and try to get that program into effect at the earliest possible date. It would be a benefit to all the taxpayers in our country.

To you gentlemen I just want to say, in general, that the testimony you have given has been most helpful.

It sounds most reasonable and logical.

If there is anything that seems to me to work in life it is to take an idea and give it a test.

I believe we go about it wrong in the Government too many times. We take an idea and throw it full-blown upon the entire system and make them try to live with it. And often the idea turns out to be a very poor one. But if you take an idea and give it a test and you see that it works, then it seems to me you have a pretty good chance to believe that when you put it into effect nationwide it's going to work on that level too.

Now you've come up with some very specific suggestions based on experience. I would certainly think that there should be a response from the Department to take the steps to implement those ideas and put them in on a nationwide basis.

I appreciate the work and the testimony that you've given us here today.

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Mr. FOUNTAIN. I have one question which I overlooked asking of you earlier, Mr. Martin.

You stated that about $500 million a year is being misspent in the AFDC program, despite the error rate reductions in the past several years.

Dr. Bendick estimated that the five corrective actions he proposed would result in net savings, from payment errors avoided, of $500 million a year, to both the Federal Government and the States.

His estimate would appear to be considerably lower than GAO's. Would you explain how the GAO estimate was arrived at?

Mr. MARTIN. That estimate was put together by HEW, and we picked it up from their documents. It is not an independently computed estimate.

Mr. FOUNTAIN. Is it true that HEW—and they can answer this for themselves—has found that about 50 percent of the errors are agency errors at the State and local level and 50 percent are client errors or fraud, whatever the case may be?

Mr. MARTIN. Yes, sir. That's a fairly close estimate.

Mr. FOUNTAIN. In reference to the $500 million estimate of net savings if the five recommended strategies were followed, Dr. Bendick, did you take into accounts the costs which might result from these corrective actions?

For example, simplifying rules by establishing a consolidated standard can reduce errors, but it also can add costs by increasing payments to eligibles can it not?

Dr. BENDICK. Yes, sir. It depends on how you establish the consolidated standards. Some States have established them at what you might call a zero base budget level; that is, they consolidated so that the total payments were the same. Other States have consolidated at the time they were increasing payments anyway, which reduced opposition to the consolidation.

Mr. FOUNTAIN. Did you take into account the costs which might result from the corrective actions?

Dr. BENDICK. In that particular calculation, we did not, because it has been demonstrated by some States that it is possible to consolidate without increasing expenditures.

I should add that one of the difficulties which States face in trying to develop consolidated standards is that the Social Security Act mandates so-called statewide uniform administration. That has been interpreted to prohibit grandfathering of people at one level of benefits when the grant rules are changed, such as in consolidation.

If the Social Security Act were amended explicitly to allow grandfathering in that transition situation, that would facilitate development of consolidated standards by removing a potential financial constraint.

Mr. FOUNTAIN. Did you take into account the fact that much of the reduction in error rates which you foresee may be reductions in procedural errors which often have no impact on actual benefit payments?

Dr. BENDICK. Yes, sir.

The numbers we presented for payment errors avoided were based on the payment error quality control findings and were not based on case errors. We also presented separate numbers for case errors because case errors have drawn a lot of attention and do have a public importance in representing the overall integrity of the system. But the payment error numbers we cited were not based on case errors.

Mr. FOUNTAIN. I believe GAO also makes that point.

Mr. Martin, let me ask you where a GAO report of this kind is sent. How many committees of the Congress get this report in which GAO indicates that legislation is needed?

Mr. MARTIN. Any of the committees that have——

Mr. FOUNTAIN. A legislative jurisdiction?

Mr. MARTIN [continuing]. Legislation committees, the appropriation committees, the Government Operations Committee, of course, gets it.

Most of the chairmen of the committees in Congress get copies of these reports. They are sent to the Speaker of the House and the president of the Senate.

Mr. FOUNTAIN. Of course, we review them and hold hearings such as we're having now to spotlight some of the significant things that we feel should be examined and perhaps given greater exposure.

However, this committee doesn't have legislative jursidiction to do the things which are recommended. Do you take any particular action to spotlight this report for the legislative committees which have the jurisdiction—other than just transmitting it?

Mr. MARTIN. In some cases, we will send a special transmittal letter to highlight legislative recommendations. In this case, Mr. Horte advises me that we did do that—call special attention to the need for legislation.

Mr. FOUNTAIN. I think it's very important that this sort of thing is done.

When you determine the facts, as you have, and the courts act, as they have, and you see the need for legislation, I think it's important that those who have jurisdiction take the necessary action to get the legislation through. It is just ridiculous that we let this sort of waste, inefficiency and even fraud continue for long periods.

Dr. Bendick, you stated in your written testimony that about 12 percent of all AFDC cases contain client errors.

In your oral testimony, you said about 5 percent of all AFDC cases involved nonfraud client errors.

Does this mean that 7 percent of all AFDC cases involve fraudulent client errors?

Dr. BENDICK. Not exactly.

Mr. FOUNTAIN. How do you arrive at that?

Dr. BENDICK. The definitions are not terribly precise in some of these matters. There is a special report put out by the National Center for Social Statistics which identifies cases in which there is sufficient evidence of fraud to support a formal determination of fraud. Those cases are estimated at about 2 percent of the caseload.

Mr. FOUNTAIN. How do you arrive at these estimates of fraudulent and nonfraudulent errors by clients?

Dr. BENDICK. Again, that is a determination made by the States; and there is some lack of uniformity among the States in the quality control system as to what they define as a fraudulent error, just as there is some lack of uniformity about what's called a client error or an agency error.

Mr. FOUNTAIN. Do you have any further questions, Mr. Wydler?

Mr. WYDLER. I have no further questions.

Mr. FOUNTAIN. I want to thank both of you very much for your valuable testimony.

In listening to it and reading some of it last night, there were many more questions I wanted to ask. But I think your responses and your statements have provided an adequate background for the subcommittee on the role and potential of a quality control program.

Thank you very much for coming.

We are pleased to welcome as our next witness Mr. Don Wortman, Deputy Commissioner of the Social Security Administration which now has the administrative responsibility for the AFDC program.

It is my understanding, Mr. Wortman, that you were previously associated with the AFDC program when it was administered by HEW's Social and Rehabilitation Service.

Mr. WORTMAN. That is correct, Mr. Chairman.

Mr. FOUNTAIN. Will you be kind enough to introduce the other departmental representatives with you and then proceed with your statement?

STATEMENT OF DON I. WORTMAN, DEPUTY COMMISSIONER OF SOCIAL SECURITY, DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE; ACCOMPANIED BY FRANK DeGEORGE, ASSOCIATE COMMISSIONER, OFFICE OF MANAGEMENT AND ADMINISTRATION; AND DAVID S. HURWITZ, ACTING ASSOCIATE COMMISSIONER, OFFICE OF FAMILY ASSISTANCE

Mr. WORTMAN. Thank you, Mr. Chairman.

On my right is Mr. Frank DeGeorge who is the Associate Commissioner of the Office of Management and Administration at the Social Security Administration. He also, Mr. Chairman, was associated with and was one of the leading management officials in the Social and Rehabilitation Service during much of the period in which the fiscal sanction aspects of the quality control program were put in place.

Mr. FOUNTAIN. In the interest of time, if you can summarize your statement, we would appreciate it.

Mr. WORTMAN. I will do so, Mr. Chairman. And with your permission, I would like to have the full statement included in the record.

Mr. FOUNTAIN. The full statement will become a part of the record.

Mr. WORTMAN. On my left is Mr. David Hurwitz, who is the Acting Associate Commissioner of the Social Security Administration's Office of Family Assistance—the Office that is responsible for the AFDC program.

I will now proceed, if it is all right, with my statement, Mr. Chairman.

Mr. FOUNTAIN. Go right ahead, sir.

Mr. WORTMAN. Mr. Chairman and members of the subcommittee, I am particularly pleased to be here this morning in conjunction with your comprehensive review of the aid to families with dependent children—AFDC—program.

I am pleased because this hearing provides an opportunity for the Department of Health, Education, and Welfare to continue the discussions that were begun here with this subcommittee when Secretary Califano testified before you in July.

As I believe you know, the Secretary is very strongly committed to sound, efficient administration in the AFDC program and to a reduction in the amount of fraud and error that has existed in this program in the past. Progress is being made in each of these areas.

In the brief 4-year period since the present quality control system was put into operation, we believe it has made an impressive record as a management tool. Nationally, case and payment error rates have been cut virtually in half in less than 3 years, and we continue to press for still further improvements in the program.

When the Secretary testified before this subcommittee, he announced the Department's initiative in Operation Match—a project which at that time was prepared to compare Federal employment data with the files of the District of Columbia Welfare Department. Since that time, this project has been expanded in scope, and we will shortly be conducting a similar matching exercise in 19 major cities. While there are many public recipients earning wages low enough to qualify them for public benefits, Operation Match provides one way to quickly separate out those individuals who are improperly receiving aid while on the public payroll.

The Secretary has, in addition, given his close personal attention to the activities of the new Office of Inspector General with its special responsibilities for fraud and abuse. He has directed both that Office and the Social Security Administration to undertake a prompt and thorough review of activities that would tighten our administration of the welfare program.

In the early weeks of the new administration, Secretary Califano and Commissioner Cardwell initiated a discussion of AFDC program administration. As a result of the discussions, the Secretary has directed the Social Security Administration to implement immediately a series of administrative reforms. A copy of the Secretary's directive is appended to my statement today. The Secretary has asked that emphasis be given to changes and improvements that can be carried over to the new welfare program.

Our long-range plan for the AFDC program is to consolidate the program along with the supplemental security income—SSI—and food stamp programs into a single, nationwide system with all benefits paid in cash. The President's better jobs and income program will be a major simplification of the existing systems. As such, it will be less demeaning to the population served by the program, more understandable to both recipients and those who work in the programs, and less susceptible to error and fraud.

In addition, the jobs portion of the President's program is intended to increase job opportunities for the low-income population. The program is designed so that those who work will always receive more income than those who do not work.

We strongly believe that the President's program represents the type of fundamental reform needed in the welfare system. The program is simpler and more uniform, more equitable, profamily, and jobs-oriented.

The task of implementing the new system, however, will be complex and difficult and will require careful preparation following enactment before the new program can begin operation. Thus, we believe it is imperative that the Federal Government and the States continue to make improvements in the current welfare programs. Such improvements will have a twofold effect. First, it is clear that the efficiency of the existing programs can be enhanced; and, second, many of the improvements will facilitate the transition to the new welfare system.

A number of States are making excellent progress toward improving their AFDC programs, as you've heard this morning; and many of their ideas have contributed to the design of the new welfare system.

It is only in recent years that HEW has sought to broaden the regulatory base with respect to program administration. Today the Federal Government is exerting stronger leadership than ever before but on terms which continue to be careful to respect the important role of the States in the administration of this program. Perhaps most important is a recognition of the need to involve State agencies and their staffs in any Federal initiatives at the earliest possible stage. We recognize that there inevitably must be some variation in programs and practices between States; and thus, there must be flexibility for the States. Second, we believe that we should work within existing AFDC provisions wherever possible.

Another of our general objectives is to revise existing regulations in order to make them clearer and more concise. It is important that Federal directives be unambiguous and not be an undue burden of paperwork.

Finally, we must be cognizant of the needs of the AFDC recipients themselves. The improvements that can be made in administration of the AFDC program should achieve the goal of greater equity within the program as well as increased efficiency in program operations.

In my longer statement, which I asked to be made a part of the record, I described in some detail the steps being taken toward improved program administration. I would like to touch only upon some of these.

Under the QC system, in operation since 1973, significant progress has been made in the reduction of AFDC error rates. National case error rates have dropped dramatically in just 3 years, from 42.3 percent in 1973, to 23.2 percent in December 1976, and have continued to decline. The national payment error rate has been cut almost in two, from 16.5 percent to 8.5 percent during the same period.

We regard these improvements as a significant accomplishment, and one that reflects the spirit of cooperation developed with the States in recent years. These improvements were a result of over 1,000 corrective actions taken by the States.

Some of the more significant actions taken to date include the following: Consolidation of State benefit standards; development of profile systems that target error-prone cases; data exchange systems; increased verification of eligibility factors; and institution of more efficient client reporting systems.

During the period from 1973 to 1976, the quality control system was oriented toward fiscal sanctions which would be applied to States whose error rates exceeded certain tolerance levels.

As you are aware, a 1976 district court decision struck down the specific tolerance levels in the Department's quality control regulations, although the general right of the Federal Government to apply sanctions was affirmed. We are currently exploring alternatives to the use of fiscal sanctions as a means of holding down error rates. Final decisions have not been reached on the kinds of incentives, rewards, or penalties which should be included in the AFDC quality control program, but our present thinking is that techniques, other than sanctions, should be considered toward further reducing errors.

With regard to technical assistance, as I indicated earlier, the traditional view of the Federal role in the administration of the AFDC program has been that there should be minimal Federal intervention in the administration of a State-designed and implemented program.

In this setting, we have viewed technical assistance as a vital part of our Federal role. While more should be done, our efforts to provide technical assistance have been stepped up since 1972 in conjunction with the current quality control system. Quality control findings and corrective action planning now serve as a primary basis for determining the areas in which we should provide technical assistance to the States.

One important area of technical assistance is that of data exchange systems. Even though there are few Federal requirements that prescribe the need or methods of verification of case information, HEW has undertaken steps to facilitate State accountability with respect to the reliability of case data.

Examples of the steps being taken are:

One, the encouragement to use the social security number as a case or individual identifier or make the number at least a usable part of the case file in the automated systems. For example, the enumeration of AFDC children with social security numbers is now substantially complete after a major effort in the States during the last 2 years.

Two, the development of adequate data bases for the optimal use of automated proceses for clearances, eligibilty determination, grant calculation, administrative controls, and management information systems.

As the original sponsors of the legislation creating an Office of the Inspector General in HEW, this subcommittee's special interest in the work of the office is quite clear. We know, as well, that your staff has been in contact with the new Inspector General, Mr. Thomas Morris, as he has developed the operation of his office. I will, therefore, only touch briefly on what the office has been doing.

With the establishment in April of the Office of the Inspector General, Federal activity with respect to the detection of fraud, abuse, and waste in the welfare programs is entering into a new phase. Secretary Califano has requested an examination of the overall Department approach to detection and prevention of fraud, abuse, and waste. He has directed that a review of the AFDC program is a first priority. A copy of the Secretary's directive is also attached to my longer statement.

A cooperative effort between the Inspector General and the Social Security Administration is underway. A five-man team of experienced, senior people has been assigned to assess how the welfare programs are organized, staffed, and operating with respect to fraud, abuse, and waste in four major areas: Management information systems, the quality control system, program integrity and compliance review, and technical assistance. The team will attempt to find whatever gaps and weaknesses may exist and will report its findings to the Secretary.

We will be pleased to keep this subcommittee informed of our activities in this area of prevention and detection of fraud, abuse, and waste as they are developed.

Regarding administrative costs for the AFDC program, HEW has been mindful of the rise in administration costs during recent years and has on its agenda for fiscal year 1978 an intensive study of administrative cost practices in the States. The wide divergence between administrative costs of the various States, and the fact that it seems to have little correlation to the performance of that State in terms of errors, is a matter of continuing concern and will be an important part of our study.

Mr. Chairman, this concludes my summarization of the Department's plan for an extensive effort toward administrative improvement of the present AFDC program. I would again stress the importance that we place on tying together efforts to improve the present AFDC program with the planning for the much-needed reform of the overall welfare system. I would also reiterate that the increased Federal interest in administration of the AFDC program will be conducted in cooperation with the States; that is, we look forward for appropriate Federal-State approaches.

Thank you. We will be happy to answer your questions.

Mr. FOUNTAIN. Thank you for a very full, detailed, and informative statement, as well as your helpful summary, all of which will be made a part of our record for consideration by the subcommittee.

[Mr. Wortman's prepared statement follows:]

PREPARED STATEMENT OF DON I. WORTMAN, DEPUTY COMMISSIONER OF SOCIAL SECURITY, DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

INTRODUCTION

Mr. Chairman and members of the committee, I am particularly pleased to be here this morning in conjunction with your comprehensive review of the aid to families with dependent children (AFDC) program. I am pleased because this hearing provides an opportunity for the Department of Health, Education, and Welfare to continue the discussions that were begun with this committee when Secretary Califano testified before you in July.

As I believe you know, the Secretary is very strongly committed to sound, efficient administration in the AFDC program, and to a reduction in the amount of fraud and error that has existed in this program in the past. Progress is being made in each of these areas.

In the brief 4-year period since the present quality control system was put into operation, we believe it has made an impressive record. The task of quality control is, as you well know, an extremely sensitive one. Traditionally, administration of the AFDC program has been a State function, and we have tried to be careful not to unbalance that Federal/State relationship. We have, as well, tried to move it at a pace which can accommodate the very different personnel and resource capabilities in the different States, while at the same time making clear our intention to do a better job of managing these programs. We have been very pleased by the high degree of cooperation that we have received from the States and of the record which is being built together with them. Nationally, case and payment error rates have been cut virtually in half in less than 3 years, and we continue to press for still further improvements in the program.

When the Secretary testified before this committee, he announced the Department's initiative in "Operation Match," a project which at that time was prepared to compare Federal employment data with the files of the District of Columbia Welfare Department. The results of that first effort have been widely reported in the press. Since that time, this project has been expanded in scope, and we will shortly be conducting a similar matching exercise in 12 major cities. While there are many public recipients earning wages low enough to qualify them for public benefits, "Operation Match" provides one way to quickly separate out those individuals who are improperly receiving aid while on the public payroll.

The Secretary has, in addition, given his close personal attention to the activities of the new Office of the Inspector General, with its special responsibilities for fraud and abuse. He has directed both that Office and the Social Security Administration to undertake a prompt and thorough review of activities that would tighten our administration of the welfare programs.

During the course of my presentation this morning, I will come back to the Department's efforts in the areas of quality control and fraud prevention. However, these efforts are only part of a full HEW program of administrative reform and improvement of the present AFDC program. In the early weeks of the new administration, Secretary Califano and Commissioner Cardwell initiated a discussion of AFDC program administration. As a result of the discussions, the Secretary has directed the Social Security Administration to implement immediately a series of administrative reforms. (A copy of the Secretary's directive is appended to my statement.) The Secretary has asked that emphasis be given to changes and improvements that can be carried over to the new welfare program.

Before discussing the plans we have for the immediate future and the activities which had previously been initiated by the Federal Government and the States, I would like to look for a moment at the current AFDC program. There are inherent difficulties in the program which, in effect, limit the administrative improvements that can be made. We believe that efforts must be made to improve the AFDC program and to minimize and control incorrect payments and fraud and abuse, but we are faced with what are actually 54 different State programs, numerous income disregard systems and reporting systems, and varying eligibility rules which treat individuals with similar needs in different ways.

RELATING AFDC IMPROVEMENTS TO OVERALL WELFARE REFORM

Our long-range plan for the AFDC program is to consolidate the program along with the supplemental security income (SSI) and food stamp programs into a single, nationwide system with all benefits paid in cash. The President's "better jobs and income program" will be a major simplification of the existing systems, and as such, it will be less demeaning to the population served by the program, more understandable to both recipients and those who work in the programs, and less susceptible to error and fraud. In addition, the jobs portion of the President's program is intended to increase job opportunities for the low-income population. The program is designed so that those who work will always receive more than those who do not work. We strongly believe that the President's program represents the type of fundamental reform needed in the welfare system. The program is simpler, more uniform, more equitable, pro-family, and jobs oriented.

The task of implementing the new system, however, will be complex and difficult and will require careful preparation following enactment before the new program can begin operation. Thus, we believe it is imperative that the federal government and the states continue to make improvements in the current welfare programs. Such improvements will have a two-fold effect: First, it is clear that the efficiency of the existing programs can be enhanced, and second, many of the improvements will facilitate the transition to the new welfare system. A number of states are making excellent progress toward improving their AFDC prorgams, and many of their ideas have contributed to the design of the new welfare system.

A BROADENED FEDERAL INTEREST IN THE ADMINISTRATION OF THE AFDC PROGRAM

Traditionally, the federal role in relation to program management in AFDC has been small. In general, federal requirements have reflected the belief that AFDC is a state program for which HEW has general supervisory responsibility. As a result, regulations have been limited to very basic matters. States are required to provide for proper accountability, the reasonably prompt disposition of applications, timely action in response to changes in the situation of individuals receiving aid, due process, the implementation of merit system standards, and safeguards necessary to protect confidential information.

As the excellent report prepared by the Congressional Research Service at the request of your committee indicates, it is only in recent years that HEW has sought to broaden the regulatory base with respect to program administration. Today the federal government is exerting stronger leadership than ever before, but on terms which continue to be careful to respect the important role of the states in the administation of this program. Perhaps most important is a recognition of the need to involve state agencies and their staffs in any federal initiatives at the earliest possible stage. We recognize that there inevitably must be some variation in programs and practices between states, and thus, there must be flexibility for the states. Secondly, we believe that we should work within existing AFDC provisions wherever possible. Another of our general objectives is to revise existing regulations in order to make them clearer and more concise; it is important that federal directives be unambiguous and not be an undue buden of paperwork.

Finally, we must be cognizant of the needs of the AFDC recipients themselves. The improvements that can be made in administration of the AFDC program should achieve the goal of greater equity within the program as well as increased efficiency in program operations.

I would like to turn now to a discussion of the ways in which we believe progress is being made toward improved program administration. Of necessity, this will be discussed from the federal perspective, but we recognize that the states have had an important role in the achievement of those improvements which have been made. My discusison will relate to matters which, while overlapping, can be characterized for the sake of discussion as: (1) the quality control system, (2) technical assistance to the states, (3) data exchange systems, (4) improvements in procedures, (5) fraud, abuse, and waste, (6) lower administrative costs, and (7) other areas.

THE QUALITY CONTROL SYSTEM

About half of the incorrect payments in the welfare program are related to recipients and about half arise from administrative difficulties. Working to reduce such errors is the task of the QC effort. It is primarily a management tool, use cooperatively to help states run their programs more efficiently.

States are required to have a system which, using sampling methods, establishes error rates and provides for corrective action plans so that the incidence of errors is reduced. As described in the report of the Congressional Research Service, the system for quality control has not been without problems.

Although the department has always carried out some QC activities in relation to the welfare programs, the present quality control system was instituted in 1973. It is essentially an end-of-line, federal/state review of a sample of actual cases, which is statistically designed to measure overall payment accuracy. As such, the quality control system is the only comprehensive source of quantifiable data on the accuracy of the program, and the delivery of AFDC benefits, and on the efficiency of the processes which deliver those benefits. The quality control system provides program management with a consistent tool for measuring the performance of a state program from one period to the next. The system has therefore assumed a significant role in our efforts to better manage the AFDC program, and together with more traditional program management review, our quality control findings are used to identify various areas of program administration and policy which demand our attention in improving program effectiveness.

Under the QC system in operation since 1973, significant progress has been made in the reduction of AFDC error rates. National case error rates have dropped dramatically in just 3 years, from 42.3 percent in 1973 to 23.2 percent in December 1976, and have continued to decline. The national payment error rate has been cut almost in two, from 16.5 percent to 8.5 percent during the same period. We regard these improvements as a significant accomplishment and one that reflects the spirit of cooperation developed with the states in recent years. These improvements were a result of over 1,000 corrective actions taken by the states. Some of the more significant actions taken to date include the following:

Consolidation of state benefit standards;
Development of profile systems that target error prone cases;
Data exchange systems;
Increased verification of eligibility factors, where warranted; and
Institution of more efficient client reporting systems.

During the period from 1973 to 1976, the quality control system was oriented toward fiscal sanctions which would be applied to states whose error rates exceeded certain tolerance levels. As you are aware, a 1976 district court decision struck down the specific tolerance levels in the department's quality control regulations, although the general right of the federal government to apply sanctions was affirmed. We are currently exploring alternatives to the use of fiscal sanctions as a means of holding down error rates. Final decisions have not been reached on the kinds of incentives, rewards, or penalties which should be included in the AFDC quality control program, but our present thinking is that techniques other than sanctions should be considered toward further reducing errors.

There are two recent studies that bear on the quality control system and the reduction of erroneous payments. One is a study by the General Accounting Office. This study was prompted by Congressional concern about the high number of erroneous payments made under the AFDC program. The study concludes that, despite reductions in the error rates in the past several years, considerable amounts of benefit dollars continue to be misspent. They believe that because HEW lacks the means to withhold Federal matching funds, as a result of the recent court decision, concerning the quality control tolerance levels, there will be difficulty in promoting further error reduction. The GAO study also considers HEW estimates of program savings since 1973, due to quality control efforts, to be overstated, a point on which there continues to be discussion.

We feel that corrective actions by the States are the real key toward further reduction in error rates. I have stated that we are evaluating the kinds of incentives or penalties which should be included in the quality control program, but greater accuracy is, in the long run, contingent on the corrective administrative actions that incentives or penalties are meant to stimulate. We do agree with the GAO study on the particular point that HEW should focus its efforts on those States experiencing the greatest difficulty in error reduction. The specific question of the magnitude of the program savings which can be said to have resulted from improved accuracy is quite complex to answer. Our current estimate of the program savings since 1973 is $1.3 billion. The department generally concurs with GAO's recommendation for computation of savings due to reduced erroneous payments, but we believe that whatever savings figure is finally determined, even under a method such as that recommended by GAO, that it will be very significant.

The second study was conducted under contract by Touche-Ross and Company and evaluated the relationship between savings which resulted from the corrective actions taken as a result of the quality control system and increased administrative costs. The Touche-Ross study found the effects of a particular corrective action are often difficult to determine because several actions may be taken at the same time or a particular action may be implemented gradually. However, in considering the decline in error rates in the 1973–1976 period, the study found that the majority of the reduction in both case error rates and payment error rates was due to corrective actions taken as a result of the quality control system.

The "bottom line" of the Touche-Ross study is that the quality control system is cost effective. In the 15 states involved in the study, the cumulative cost of the quality control identification of problem areas and the appropriate corrective actions was $64 million in the sample period, whereas the cumulative cost avoidance or savings (adjusted to correct for error reduction from which no program savings result) in the same period was $140 million. The 15 states studied represent approximately 50 percent of the national AFDC caseload and 50 percent of the national administrative costs. Thus, generally it was shown that the quality control corrective action process both provides an accurate picture of the efficiency of the AFDC program and that it is a cost-effective management tool.

I would also add that the results of the Touche-Ross study indicate that a significant amount of savings can be achieved at a small incremental cost. This is especially true for those States which still have a relatively large amount of erroneous payments. We are working with States in identifying the types or cases and problems which represent the most fertile areas for further reduction in errors. This identification of error-prone cases is one of the several ways in which the Federal Government is providing technical assistance, a subject to which I now will turn.

TECHNICAL ASSISTANCE

As I indicated earlier, the traditional view of the Federal role in the administration of the AFDC program has been that there should be minimal Federal intervention in the administration of a State designed and implemented program. In this setting, we have viewed technical assistance as a vital part of our Federal role. While more should be done, our efforts to provide technical assistance have been stepped up since 1972 in conjunction with the current quality control system. Quality control findings and corrective action planning now serve as a primary basis for determining the areas in which we should provide technical assistance to States.

We issue a variety of printed materials to the States, ranging from program instructions to publications describing individual State practices which we regard as innovative in the area of income maintenance administration.. The program instructions generally are clarifications of Federal policy, and it is incumbent upon States tofollo wthes e instruction; on the other hand, there is a wide range of publications which are made available as resources from which each State may draw ideas according to the State's own perception of needed program improvements. These include such items as management training programs, guides and visual aids to assist States in preparing their own training programs, and bulletins describing a variety of management practices, as well as our "how they do it" booklets which describe particularly effective program implementation. These booklets are an excellent example of Federal/State cooperation, designed to help improve the management of the AFDC program through the sharing of experiences and concepts.

We will continue to study the results of various administrative improvements being attempted in order to help identify, for the States, the most effective methods of reducing case error rates and assuring quality service to recipients. There is no single solution to these administrative issues, we strongly believe that it is important to retain a measure of flexibilty as we work to determine which of the guidelines we issue may be put to best use within the widely varied availability of State resources.

We also provide assistance through our regional offices which are the primary contact point between HEW and the States. Some of the contact occurs through formal channels by way of written communications. This may result in statements of policy clarification, often with national distribution. Just as important, the regional offices consult with the States on an informal and day-to-day basis.

Another important area of technical assistance is that of data exchange systems, to which I now will turn.

DATA EXCHANGE

Even though there are few federal requirements that prescribe the need of methods of verification of case information, HEW has undertaken steps to facilitate state accountability with respect to the reliability of case data. Among the steps are:

The encouragement to use the social security number as a case or individual identifier or make the number at least a usable part of the case file in the automated systems; for example, the enumeration of AFDC children with social security numbers is now substantially complete after a major effort in the States during the last 2 years.

The development of adequate data bases for the optimal use of automated processes for clearances, eligibility determination, grant calculation, administrative controls, and management information systems.

The beneficiary data exchange (bendex) which provides the States with information on the receipt of federal survivor benefits by AFDC families has been in operation for a number of years as an automated process and is being continuously reviewed and improved. This is a service available to the States which not only provides verification of benefits, but keeps the States automatically appraised of any changes in the receipt of such benefits.

HEW was instrumental with support from the U.S. Department of Labor, in facilitating the exchange of wage data in those 38 States that keep such information for the other States, that do not keep such records, SSA provides similar information from its wage records for the quality control sample cases, but because of the delay in the posting of such records, the value of such information is more limited.

HEW has developed, and made available to the States, a model for automated exchange of information between States to compare welfare roles and other State files.

As mentioned earlier, HEW is implementing project "Match," in which federal payrolls are compared with State welfare rolls to uncover fraudulent receipt of welfare assistance by federal employees.

States that operate their programs on a State-supervised, county-administered basis have been encouraged to establish central State files to permit clearance of new cases against such files. Such clearances can be done in different ways in addition to a straight alphabetical check to discover duplications. Such cross-checks are applied also to other programs such as the medicaid and supplemental security income programs.

The effect of these measures for exchange of data has been a significant reduction in error rates related to earned income, resources, and the receipt of benefits from other public programs. Also, the data exchange systems have been an important tool in curbing fraud and abuse with respect to unreported and understated income, and multiple payments made to the same recipient by more than one jurisdiction.

IMPROVEMENT IN PROCEDURES

Utilizing the opportunity for demonstration and research under sections 1110 and 1115 of the Social Security Act, HEW has participated with the States and encouraged considerable experimentation and development in various aspects of program administration. Several years ago HEW sponsored projects in several states to develop automated systems for the administration of public assistance programs and at the same time fostered interchange among the States about such systems.

I would like to mention a few recent demonstration projects as examples of the continuing efforts to improve procedures.

In West Virginia, the entire management system has been redesigned, using as a core element an error prone case profile. It permits the State to focus on selective workload planning and do more extensive work on error prone situations.

In Texas, a similar project emphasized automated control of redetermination in connection with the development of an error prone profile, using a somewhat different methodology.

In Wisconsin and Massachusetts, projects are identifying the specific impact of agency and recipient characteristics on agency performance. Based on their findings, these projects will provide guidelines for management systems. In another project, Wisconsin examined the impact of staff training on performance and error rates and simultaneously developed a programmed training model with diagnostic instruments to determine training needs of individual employees.

In addition to the above projects, there are a number of improvements State agencies have undertaken on their own initiative. These have to do with the development of an adequate data base for a single or multiple program, the integration of processes for multiple programs, such as combined application and other case forms, automated grant calculation, management information systems, and monthly reports by recipients.

Finally, a comprehensive study of variations in AFDC administrative performance will soon be released. The study, which was conducted under contract by Booz, Allen and Hamilton, recommends a stronger Federal role in defining and emphasizing administrative policies and standards. We are giving close attention to the results of this study.

FRAUD DETECTION AND PREVENTION

As the original sponsors of the legislation creating an office of the inspector general in HEW, this committee's special interest in the work of the office is quite clear. We know as well that your staff has been in contact with the new inspector general, Mr. Thomas Morris, as he has developed the operation of his office. I will, therefore, only touch briefly on what the office has been doing. As the report by the Congressional Research Service notes, HEW regulations have mandated that the States provide for identifying, investigating, and referring to State law enforcement officials, those situations where there is valid reason to suspect fraud in the AFDC program. Further, the regulations state that the definition of fraud will be determined in accordance with State law. Thus, until now, fraud prevention and detection have largely been the responsibility of the States.

With the establishment, in April, of the office of the inspector general, Federal activity with respect to the detection of fraud, abuse, and waste in the welfare programs is entering into a new phase. Secretary Califano has requested an examination of the overall department approach to detection and prevention of fraud, abuse, and waste. He has directed that a review of the AFDC program is a first priority. (A copy of the secretary's directive is one of the appendices to my statement, and I would ask that the appendices be made part of the record.)

A cooperative effort between the Inspector General and the Social Security Administration is already underway. A 5-man team of experienced, senior people has been assigned to assess how the welfare programs are organized, staffed, and operating with respect to fraud, abuse, and waste in four major areas: management information systems, the quality control system, program integrity and compliance review, and technical assistance. The team will attempt to find whatever gaps and weaknesses may exist and will report its findings to the secretary.

As was previously mentioned, "operation match" was the first activity undertaken by the Office of the Inspector General. A description of that effort has been provided to the committee. Among other recent initiatives are several that may be of interest to this committee. We have published technical assistance publications on some of the more successful practices in fraud control, including issuance of photo-identification cards, distributing payments through banks, and other management controls. Also, under contract to HEW, General Research Corporation examined state practices in a number of areas, including program integrity. The report has recently been completed, and we are evaluating the findings.

We will be pleased to keep this committee informed of our activities in the area of prevention and detection of fraud, abuse, and waste as they are developed.

Finally, I would like to point out that we believe there is an important distinction to be made between the activities of the QC program and those of the Inspector General. QC is, and will remain, a management tool which can be used to help the states. The role of the Inspector General is one which we believe can most effectively be carried out only so long as it is separate from day-to-day management and program operation functions; the objectivity of the office is enhanced when it intervenes only when there is reason to suspect the incidence of fraud, abuse, or waste. We believe, and the states have concurred with us in this belief, that the two functions should remain separate.

ADMINISTRATIVE COSTS

HEW has been mindful of the rise in administration costs during recent years and has on its agenda for fiscal year 1978 an intensive study of administrative cost practices in the states, preparatory to this study, substantial information already has been gathered concerning staffing requirements, cost-of-living rises, special efforts made as a result of quality control findings, and cost allocation practices.

The wide divergence between administrative costs of the various States is a matter of continuing concern and will be an important part of our study. In regard to State costs, we are presently testing a different cost reporting format in several States. However, at this time, we are not at all certain that all States have the capacity to provide the detailed information that would be required. It is certain that we are in need of much more detail than we now receive. The proposed forms hopefully would—

Collect administrative cost data in a uniform format, by program, to facilitate Federal budget planning;

Collect administrative costs by program function for state management purposes;

Assist States in controlling the allocation of manpower and dollars among administrative functions;

Facilitate Federal and State cost analyses and policy decisionmaking processes; and

Identify appropriate levels of expenditures in various functional areas and set guidelines in each area.

Also, one aspect of the above-mentioned study by Booz, Allen, and Hamilton relates to cost effective administration. The study results should help to relate more closely performance and administrative cost.

OTHER ADMINISTRATIVE AREAS

There are some additional areas of the AFDC program where we believe administrative improvements can be made. I will mention a few of these briefly.

First, I believe a very significant item for improvement is our proposal to standardize the work expense disregard. This would require legislation and the administration's specific proposal was transmitted to the Congress on May 10, 1977. Generally, it would provide for a percentage of earned income to be disregarded, in lieu of making itemized determinations on an individual case-by-case basis. The current requirement for deducting itemized expenses necessitates a procedure which is administratively complex, is prone to subjective determinations by caseworkers, and has a high potential for error.

There is another income-related matter which we are looking at carefully. This has to do with the way in which we handle income reporting under the program. In conjunction with the state of Colorado, and Mathematica Policy Research, Inc., we have been experimenting with an alternative income reporting system to improve the accuracy and responsiveness of our present system for determining payments. Testimony before you on July 21 by the Mathematica representative, described the project for reviewing the impact of a monthly reporting system. Our experience with this project and similar projects has led the Congress to appropriate $10 million to accelerate this developmental work in FY 1978.

CONCLUSION

Mr. Chairman, this concludes my summarization of the department's plan for an extensive effort toward administrative improvement of the present AFDC program. I would again stress the importance that we place on tieing together efforts to improve the present AFDC program with the planning for the much-needed reform of the overall welfare system. I would also reiterate that the increased Federal interest in administration of the AFDC program will be conducted in cooperation with the States; that is, we will look for appropriate Federal-State approaches.

Thank you. I will be happy to answer any questions you may have.

APPENDIXES

1. Memorandum from Joseph A. Califano, Secretary, HEW, to James B. Cardwell, Commissioner of Social Security Re Immediate Implementation of Administrative Improvements to Current AFDC Programs; Transitions to the President's Better Jobs and Income Program, September 27, 1977.
2. Memorandum from Joseph A. Califano, Secretary, HEW, to Inspector General Re Examination of the Organization, Staffing, Procedures of Each POC in Matters Concerned with Fraud, Abuse, and Waste, August 23, 1977.

THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE,
Washington, D.C., September 27, 1977.

Memorandum to James B. Cardwell, Commissioner of Social Security.
Subject: Immediate Implementation of Administrative Improvements to Current AFDC Programs; Transition to the President's Better Jobs and Income Program.

President Carter's Program for Better Jobs and Income represents a comprehensive and far reaching proposal for reform of our income maintenance systems. Implementing this ambitious and badly needed program will require strong energy and support at all levels of government.

Although it is expected that full implementation of the Program will not take place prior to Fiscal Year 1981, there are certain improvements to the current system that can be made now, which will also serve to facilitate a smooth transition to a new program.

As one of the first steps in this direction, I want to begin forthwith to design and implement administrative reforms—with emphasis on changes and improvements that can be carried over to the new Program. Examples of such reforms include:

The development and testing of a national computer system. We have discussed this before, and, as you know, I see it as a critical feature of any new system. Once operational, it holds great promise for avoiding duplicate payments, for identifying those who are ineligible and for generally improving the efficiency of current operations and accuracy of payments.

The development of new concepts and methods for cross-checking and testing for various forms of common fraud, error and abuse, including the development of error-prone profiles and enlargement of existing data exchange systems at Federal, State, and local levels.

The development, to the maximum extent possible, of uniform definitions of eligibility, income, resources, and related factors.

Development of principles and standards for the administration of outreach, claims processing, benefit payments, and redeterminations. The existing law provides authority for the Department to define "proper and efficient administration," but this has never been done. We should do so now.

Other operational and procedural changes, including improved quality control and cost allocation, and data and statistical reporting methods.

PRINCIPLES TO BE FOLLOWED IN DEVELOPING AN ADMINISTRATIVE REFORM PACKAGE

I am looking to the Social Security Administration to take the initiative and to provide the leadership in this effort. I expect you to work closely with the Office of the Assistant Secretary for Planning and Evaluation and the Office of Inspector General. I also want you to consult with the States and local governments in developing these reforms.

We should be guided by the following principles:

1. This effort should be consistent with the President's Program for Better Jobs and Income.
2. The package should be designed to the maximum extent possible around current AFDC provisions. I believe that much of our existing authority for improved administration has been either underutilized or not used at all.
3. To the extent appropriate and necessary, existing regulations should be revised. Consistent with our general objective of improving all Department regulations, any such revision should be clear, concise, and not overly prescriptive.
4. Where a promising reform is identified but cannot be executed under current authority or within existing resources, the plan should include proposals for the necessary legislative or resource authority. In other words, where warranted, we will consider appropriate legislative or budgetary action.
5. High priority must be given to simplification of administration designed to assure that those entitled to benefits have access to and are receiving the benefits to which they are entitled.
6. The prevention, detection, and avoidance of fraud, error and abuse must be a high priority in the development of the administrative reform plan. In this regard, the Inspector General is making his own recommendations of ways to eliminate fraud and abuse in all HEW programs, including AFDC. The Social Security Administration's mandate to improve overall AFDC program administration is considerably broader, but your activities should be coordinated with the Inspector General's initiatives in this area.
7. The relationship of AFDC to the Child Support Enforcement Program and to social services should be examined and strengthened.
8. Redesign of the SSI-AFDC Quality Control system should also be a part of this effort.

APPROACH AND TIMETABLE

I would like to have a written action plan, including identification of all major objectives and areas to be explored, not later than November 15. The plan should include the identification of any legislative or budgetary changes that might be required to carry out objectives of the plan.

This plan is critically important not only for the current AFDC and related programs, but for the eventual success of the Better Jobs and Income Program as well. Improved management and control are absolutely essential if we are to build public and congressional confidence in this important area.

JOSEPH A. CALIFANO, Jr.

THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE,
Washington, D. C., August 23, 1977.

Memorandum to: Inspector General.

Subject: Examination of the Organization, Staffing, Procedures of Each POC in Matters Concerned with Fraud, Abuse, and Waste.

As our new organizational structure becomes operational, it becomes apparent to me that we need to carefully examine the adequacy of our practices in each major program area which is concerned with the detection and prevention of fraud, abuse, and waste.

It is clear that we have had uneven approaches to these matters in our previous organization, and that there has been a lack of clear-cut and consistent Departmental policy.

I would like to receive a report setting out your assessment, with recommendations, covering each POC. Please give first priority to such a review of the AFDC program. I will expect the Head of each POC to cooperate fully in the review, and that POC Heads' views will be evaluated and discussed in your report.

In conducting these reviews I desire that you give particular attention to each of the following matters as they relate to fraud, abuse, and waste.

The development of adequate Management Information Systems.

The application of quality control systems to measure error rebates and to pinpoint trends warranting both favorable recognition and corrective actions.

The organization of Program Integrity staffs with the mission of detecting and preventing fraud, abuse, and waste in coordination with the Inspector General.

The dissemination of knowledge of the State and local governments on best practices, and in providing expert advice and assistance in applying these best practices to the detection of fraud, abuse, and waste.

JOSEPH A. CALIFANO, Jr.

Mr. FOUNTAIN. Mr. Wortman, when Secretary Califano appeared before this subcommittee on July 27, he was informed about a complaint we received from New York State concerning the Social Security Administration's refusal to match New York's AFDC rolls against the quarterly wage reports. He said he was going to look into this matter.

I wonder if you are able to give us a report on what has been done in this regard?

Mr. WORTMAN. Yes, sir, I can.

We have consulted with the Office of the General Counsel of the department on the matter that Ms. Bernstein brought before the subcommittee.

Based on our proposed regulation one, which is the confidentiality reg that the SSA has out for comment, and our interpretation of the Privacy Act and Tax Reform Act, coupled with the fact that the AFDC program is now the responsibility of the Social Security Administration, we do not have the problem that we did have.

She was correct in stating that was our policy at the time she was before this subcommittee.

We do not have a problem with sharing wage information with a State welfare office for administration of the AFDC program. We can do that, we feel, under the law.

Mr. FOUNTAIN. Dr. Goldberg?

Dr. GOLDBERG. Mr. Wortman, has New York State been advised that you are now in a position to match their AFDC rolls with the wage records?

Mr. WORTMAN. I would like to confirm that.

Based on my report that I have from general counsel, I can't say that definitively. I think we might have, but I'd like to confirm it for the record if I may.

Dr. GOLDBERG. Did I understand you to say that this was a recent decision reached by legal counsel that your regulations did not prohibit making that information available?

Mr. Wortman. That is correct.

Dr. Goldberg. Would you reconcile that change in Department position with the information made available on page 15 of your statement: That HEW was instrumental in facilitating the exchange of wage data in the 38 States that keep such information; and that for the other States, including New York, which do not keep wage records, SSA provides similar information from its wage records for the quality control sample cases.

Your statement suggests that at the same time the Department was maintaining confidentiality of the wage data in response to New York State's request for a total match, the Department was providing access to the same data for a partial match for quality control sample purposes. Is that the import of your statement?

Mr. Wortman. No. It is true that SSA was doing a match for quality control purposes but the information on page 15 related to two types of disclosures. One is talking about access benefit information for the people in America who receive social security benefits; and the other is talking about access to the 108 million Americans who have their earnings record on our files, in the big computers in Baltimore.

For a long time, we have encouraged what we call our Bendex system with the States in terms of sharing benefit information about those Americans who are receiving payments under social security.

The issue she brought before the subcommittee, that I am attempting to address today, is getting access to the information about the wages earned in connection with the administration of assistance programs.

Dr. Goldberg. I assumed from your statement that at the point where you talked about facilitating the exchange of wage data, you were then referring to the quarterly wage reports for employed persons, because the preceding paragraph of your statement makes explicit reference to the Bendex system.

I thought you were then describing another type of wage matching; what you were saying, then, is that both paragraphs apply only to the data for social security recipients.

Mr. Wortman. That is correct with respect to the Bendex system. However, with regard to the wage data, we are now going to be able to extend our cooperation.

Mr. Wydler. Let me get this clear in my mind.

Do I understand now that you're going to help expand Operation Match to State and local governments?

Mr. Wortman. In the letter we sent to the State welfare departments asking for their welfare files to match with Federal employment, we did offer to run additional information at the same time if they wanted us to. That is going to be their option. We are primarily getting their——

Mr. Wydler. If I understand Match, what you're doing is taking the District of Columbia employment records and comparing them to the welfare records. Isn't that what Match is?

Mr. Wortman. Operation Match is taking the Federal employment tape from the Civil Service Commission and running it against the District of Columbia's welfare tape.

Mr. **Wydler.** And what I'm suggesting is that we should run the welfare tapes against the State and local government employment records.

Mr. **Wortman.** We would encourage that. Cook County has done that and Wayne County has run tapes against their State tax records.

Mr. **Wydler.** Are there any legal problems in doing that?

Mr. **Wortman.** We have none. Our letter would encourage that. I think our letter went on to state that, with respect to general assistance, which is a State program in which there is no Federal dollar participation, we would run the general assistance rolls along with the AFDC rolls for the States.

Mr. **Wydler.** Thank you.

Mr. **Fountain.** Mr. Wortman, in your statement, you made reference to the Office of Inspector General. Your comments may already have answered the question, but just for the record I would like to ask you two or three questions.

How is the office working out?

Mr. **Wortman.** I think excellently. Under the leadership of Tom Morris—and I'm impressed with him as an individual in terms of his breadth of view and conduct of a very sensitive post, and I've worked with him intimately—the Office of Inspector General has hired, in addition to the audit and investigation staffs that they inherited due to the reorganization required as part of the statute establishing the office, some program knowledgeable people from throughout the Department, whom I look upon as a very-high-caliber staff who will relate to our staff.

Some of the initiatives they have taken I think have been good initiatives, and I think they will help tune us up, in fact.

Mr. **Fountain.** In your operation, has the establishment of this office in any way limited the Secretary's ability and responsibility to guide and control HEW programs?

Mr. **Wortman.** I think it has enhanced his ability.

Mr. **Fountain.** Have you seen any evidence, so far, of any adversary relationship developing between the Secretary and the Inspector General?

Mr. **Wortman.** I haven't seen any. They don't confide in me every night when they go home. [Laughter.]

Mr. **Fountain.** Have you had any problems because of the Inspector General's statutory responsibility to report to Congress? Or do you think you will have any?

Mr. **Wortman.** No, sir; I have not. However, it is not a question that I am fully aware of. I understand that the Attorney General may or may not have had a little question. I don't know all about that; I haven't focused on that fully. I am not aware of any interference with our doing the job.

Mr. **Fountain.** Has your department determined the factors which are responsible for the sharp 48-percent increase in AFDC administrative costs in the States from 1974 to 1975? This cost increase, as you know, occurred in the period when the AFDC caseload was increasing only 9 percent and the number of applications handled by 19 percent.

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The 48-percent increase from 1974 to 1975 compares with 20- and 22-percent increases in each of the 2 preceding years. These figures are shown on page 129 of the committee print prepared by the Congressional Research Service.

Mr. WORTMAN. I have testified on that same subject before both the House and the Senate Appropriation Committees.

I must first acknowledge that our data base for what I'm to say is very weak. That's why we hired one of the contractors to take a more detailed look. But I'm going to relate it to three factors: One-third of that is inflation—and I think the Congressional Research Service report confirms that. The other two are less precise.

At the same time that we were federalizing aid to the aged, blind, and disabled, the Nation was moving on a more aggressive campaign for advising Americans of their full entitlement under the food stamp program. Under the legislation, we are required in AFDC to do the food stamp eligibility and charge that to the AFDC administrative costs. That is one factor. As I think you'll find in 1974, and I can't give it to you off the top of my head, the food stamp rolls were increasing much more significantly than the AFDC rolls.

The last factor, and the least understandable to us, is that it appears that the federalization of the aid to the aged, blind, and disabled did not result in any corresponding reduction in State and county welfare staffs.

Some State administrators attribute that to the fact that the heat of the quality control program, forcing them to take corrective action, encouraged them to keep these people on—to get at their corrective actions. I've never been able to satisfy myself personally as to the bright side of that issue.

Mr. FOUNTAIN. The committee print also shows, on page 143, that New York State's administrative staff for AFDC was almost twice as large as California's in 1975, while the quality control survey indicates that New York's error rates were twice as high as California's. The approximate caseload per eligibility worker was 32 in New York as compared with 75 in California.

Has HEW done any analysis to identify the reasons for these striking differences?

Mr. WORTMAN. I would have to acknowledge to the chairman that we have not.

This is one of the areas, as my statement indicated, that we need to address more vigorously. The range of difference between New York and California is, in large measure, hard for us to understand.

Mr. FOUNTAIN. Do you think this is significant enough for future studies to take a look at?

Mr. WORTMAN. Yes, sir. In the Secretary's instruction to Commissioner Cardwell, this is one of the areas he wants him to get on top of.

Mr. DEGEORGE. Mr. Chairman, if I might add a comment on your last question on the increase of administrative expenses.

We commissioned the consulting firm of Touche Ross to do some analysis of 15 States as to the increase in administrative expenses. This subcommittee, of course, will be provided a copy of the final report which should be coming out very soon.

If I may just quote one line—and I don't mean to get it out of context:

For the combined 15 States, QC costs constituted 13 percent of the reported AFDC administrative cost increase. The remaining 87 percent of the increase was due to factors other than quality control administrative costs.

The specific conclusion is that almost 90 percent of the administrative cost increase comes from factors other than increased quality control staffing.

Mr. **Fountain**. Thank you for that comment.

I might add that any time during the course of our questioning, please don't hesitate to supplement what may be said by other witnesses.

On page 9 of your statement, Mr. Wortman, you state that you are currently exploring alternatives to the use of fiscal sanctions as a way of reducing errors. What are some of these alternatives?

Mr. **Wortman**. I can let Mr. DeGeorge talk about that in greater detail.

But currently with the Senate Finance Committee's hearings, we have discussed with Senator Long's staff and Senator Talmadge's staff two major thrusts. Let me just tell you both. And the one is directly responsive to your question.

One is that if Congress were to enact what the Senate is contemplating adopting at the committee level, it would have us extend the quality control program with valid samples to local areas with suspected high incidence of error. In effect, you would get at major urban centers with a valid sample.

We're in agreement that we ought to extend the program in that direction.

Second, the provisions that they have under development would provide for positive rewards—not a negative sanction or penalty—a positive dollar reward for achievements in error reduction.

I'd like to have Mr. DeGeorge speak to that, because he's been in negotiations with the Senate specifically.

Mr. **DeGeorge**. If I might just back up a bit, I think you addressed the question as to what other incentive we might employ.

The question early on was either sanctions or penalties or no sanctions or penalties.

I think the program has proceeded to the point where exclusive consideration of penalties simply will not create the incentive that we need to have us work together with the States. It creates, at the minimum, hard feelings.

We considered a number of alternatives, not the least of which were increased technical assistance, a positive payment, and so forth.

I think the present Senate Finance Committee bill, H.R. 7200, has reflected the sentiment of the Senate Finance Committee at this point in time, which is in effect to give incentives when payment errors go below 4 percent. We're talking about dollar errors.

As a present example, in AFDC we are approximately at 8.2 or 8.3 percent total national dollar error rate.

So that's literally cutting it in half before States would receive financial incentives.

On its face, it is still quite a substantial achievement.

Mr. **Wydler**. How many States are 4 percent now?

Mr. **DeGeorge**. I'm only guessing, and I can provide it for the record. I would say it's not more than a handful.

[The information follows:]

The following States have a 4-percent or lower error rate for the period July–December 1976.

State:	*Percentage*
Idaho	3.8
Indiana	2.3
Nevada	.5
North Dakota	3.4
Arkansas	3.1
Rhode Island	3.8
Wisconsin	3.9
Wyoming	4.0

Mr. Wydler. They would get the reward.

Mr. DeGeorge. No; they would only get the reward when they got their error rates below 4 percent. That's basically the thesis.

Mr. Wydler. I really don't want to try to write the legislation here, but it sounds to me like you should make the reward depending on the percentage that the States reduce their current load—not on a fixed percentage like that. You'd be giving a reward to States for doing nothing.

Mr. DeGeorge. I neither sponsored nor wrote the legislation.

The problem we have is that the committee apparently feels that there must be a positive incentive given to the States to get down from 4 percent to 0.

The problem you have on the other side, as you well point out, is that if you make it a percentage reduction from where you are, those States who have not produced reductions, in effect, would be rewarded.

That's the problem that you have with rewarding a State that has an error rate that's now 8 percent, as contrasted to one that is now at 4 percent.

It's a difficult problem to solve.

The Social Security Administration, which recently took over the AFDC program, did consider a lot of other alternatives. We could get into them, but I think perhaps it wouldn't be particularly productive at this point in time.

Mr. Wydler. I would like to ask a question that just pops into my mind. I haven't read the judicial decisions involved here, and I don't know how far they went. But how about a system whereby each State would have deducted from its entitlement the percentage of the errors that they were making?

Mr. DeGeorge. The courts have held in *Maryland* v. *Matthews* that the Federal Government did have the right to impose penalties, but they did not have the right to impose what they called capricious and arbitrary penalties.

Mr. Wydler. What I'm suggesting certainly isn't capricious or arbitrary. It's exactly for the mistakes they're making.

Mr. DeGeorge. The problem is that when you make a statistical projection, that is, when you sample a caseload that may be 3 or 4 or 5 percent of the cases, those cases you specifically find at that point in time and want to adjust I don't think there would be any argument on. But when those cases are projected to the universe of the population and such an adjustment is made, there gets to be quite an argument as to its applicability. I don't mean to defend either approach. The problem one has is deciding what is not capricious and arbitrary, and imposing some basis that's above zero.

The law, I think, can be interpreted on one hand to literally say that you cannot pay for any improper expenditures. The courts in *Maryland* v. *Matthews* said that you have the right to set a limit, but it should be a reasonable one. Therefore, the implicit logic was that some error rates have to, and should be, tolerated. Now the question is arriving at that tolerance level.

Mr. Wydler. Is the suggestion that I'm putting forth being considered?

What I'm suggesting is that you would penalize the State for the actual mistakes they're making—percentagewise. If you want to say a 1 or 2 percent error factor, you can work that into the formula.

Mr. DeGeorge. You would take a sample and come up with the error rate? Would you project it over the total caseload, so that the State in effect would not receive reimbursement for those errors?

Mr. Wydler. Well, whatever these figures are that you're throwing out here at the subcommittee today. Everybody's talking like they know; I don't know. I don't know where you're getting those figures, but whatever they are I presume you have them from some source.

Mr. DeGeorge. Yes, sir, we do.

Mr. Wydler. Those same figures, I'm suggesting, would be the figures on which you would reduce the contributions to the States.

Mr. DeGeorge. It has been considered that, in effect, we would say that you would be paid for no errors. Yes; it has been. Let's put it this way: No one has agreed that that's the approach we should take at this point.

Mr. Wydler. I think that's a much more sensible way to do it.

The letters I get from the States say that if you don't reach a certain percentage, we're not going to give you any more money.

I think that is really a very silly way to go about it—if I can put it to you bluntly—because you know you never will be able to enforce that kind of rule where Congress will sit here and let you cut off a State's entire program or something like that.

So that's a silly way to go about it. But if you put a reasonable rule into effect, saying that the percentage that the State fails to meet the standard you are going to reduce the entitlement to that percentage, you will put the other fellow in an impossible position to argue against it I think.

Mr. DeGeorge. That's exactly, as I interpret your question, what we tried to do in 1973 when we imposed tolerance levels of 3 percent for ineligible cases and 5 percent for overpayment and underpayment cases.

Mr. Wydler. What was the penalty?

Mr. Wortman. The penalty was all Federal dollars that the States spent above those levels erroneously. And that, in some States, turned out to be a significant dollar amount.

Mr. Wydler. What happened to that?

Mr. Wortman. That's what the court threw out.

The States, to be fair to their position, would say in response to your recommendation:

> This is a Federal-State program, and part of the problem of errors is not of our own doing. Part of it is the fact that we have a complex program which involves calculating work expenses, child care expenses, determining income from assets, and welfare is not easy to administer, and you, Feds, have not

even helped us. So you have to share in the problems that we have in administering this act.

Mr. **Wydler**. That's an argument that has no end.

That could justify a 100-percent error if you accept it as the basis for what you're going to do.

Mr. **Wortman**. There is one thing clear about the President's proposal for better jobs and income, and that is the Federal Government would be solely responsible, because the income floor would be uniform throughout the Nation. The means for determining eligibility would be uniform throughout the Nation. So only one organization would be responsible, rather than 54 jurisdictions—as it is today.

Mr. **Wydler**. I don't want to talk about the practicality of that proposal, because I really can't conceive of any program that's going to pass this Congress which is going to establish the same welfare rates in, say, the State of Mississippi as in the State of New York. Somehow it's not going to end up the same.

I don't care how you are going to do it, but you just aren't going to come out with anything that's going to pay the same amount of welfare in Mississippi as it is in the State of New York.

Anybody who thinks that it will is absolutely in a never-never land. That just isn't going to be.

The probable result, in my judgment, of what would happen would be if we did establish some formal rate, the State immediately—if it's New York's case—would come in to supplement it. It would say that nobody could live on that, so we are going to implement it in some fashion.

Then, of course, you'd immediately be back into the dual system that we've just eliminated.

Go ahead. You tell me how it would work.

Mr. **Wortman**. You're correct that the State would supplement. In fact, the program is designed to encourage a certain amount of supplementation to recognize the extremes of New York and Massachusetts and California—what they pay—and what Mississippi and Arizona and Alabama pay.

But if they want the supplementation, in which the Federal Government will participate financially above the levels we've established, they must adhere to our eligibility criteria.

In other words, the proposal is very strong that States must use our eligibility criteria. Thus, the State cannot run away from having a better administration of this program.

Mr. **Wydler**. Why not?

Mr. **Wortman**. Because if they do, it would be terribly costly to them. They'd have to pay for the whole program themselves, and New York State can't afford that.

Mr. **Wydler**. We're talking all theory here, but I'm just suggesting that you're going to be back with dual administration. You're going to have people getting a payment from the Federal Government and a payment from the State.

Mr. **Wortman**. The money would all flow through one system. We would pay the check out of the Federal payment system.

Mr. **Wydler**. That doesn't make me feel very secure, because I've had more complaints about SSI than I've had on practically any other part of the welfare system.

I know that was supposed to make it nice and simple and easy. But my practical reaction as a legislator is that I've had more complaints and agony over the SSI system than I did any other part of the welfare system. So just because you federalize it doesn't mean it becomes neat and clean. That certainly doesn't follow at all.

I think the main thing is that we try to fix the responsibility on somebody, as to who is really responsible for what.

When you get into the argument that you raised where the State people say it is your fault, and so on, once you start accepting that, there is nowhere to stop.

Mr. Wortman. That's correct.

Mr. Fountain. But the program will be a Federal-State-administered program.

Mr. Wortman. The States, under the better jobs and income, are left the option to continue the intake function, even though the Federal Government would administer the payments.

Mr. Fountain. And even if you established national standards, any State can supplement in any way that it wants to.

Mr. Wortman. It can.

Mr. Fountain. You stated that the quality control system is statistically designed to measure overall payment accuracy. As such, it presently provides information on erroneous payments, overpayments, and underpayments.

Shouldn't a good quality control system also sample rejected applications as a measure of the accuracy and the fairness of a State's intake operation?

Mr. Wortman. Yes; it should. We call that the negative case action. We have agreed to add that to the program.

I think Mr. DeGeorge can give us a status report on that.

Mr. DeGeorge. The negative case action measurement was effective this past July.

Mr. Fountain. Does HEW have any kind of outreach program or provide assistance to the States to help assure that the persons who may be eligible for AFDC are adequately informed about the program and its eligibility requirements?

As you know, the Department of Agriculture has a large information program for food stamps. Your agency has taken more limited action to publicize the SSI program.

Mr. Wortman. Given the Federal-State relationship in this program, we have never undertaken anything similar to what the food stamp program has undertaken.

The kinds of things we do are technical assistance to the States to encourage them as to how to deal with their applicants and how to handle a case in a timely way. A lot of the technical assistance is based on good experiences in some States that we're trying to encourage in other States.

Mr. Hurwitz. We do have a requirement that every applicant receive information about the program. We have printed pamphlets that are given to every applicant to acquaint him with what the program is about and also what his responsibilities are in relation to this application.

Mr. Fountain. Speaking of food stamps, I was touring my district during the August recess, and just about every public building I went into had piles of paper entitled: "Do You Need Any Food Stamps?"

Mr. Wydler. Did you fill one out? [Laughter.]

Mr. Fountain. I was tempted to.

The program was being thoroughly advertised.

Anybody who went into the post office, courthouse, or other public place saw these pamphlets everywhere—as if we had food stamps for everybody.

Mr. Wortman. I don't think you'll find in most States in the administration of cash assistance that the same approach applies. It is there and available. When the people do apply they try to give them the facts.

I do not feel, from my own experience, that there are campaigns to enlist.

Mr. Fountain. I'm not sure that the postmasters had personal knowledge of this distribution. It seems to me that I did note the name of some local organization that was encouraging people to make application for food stamps.

I gather from your statement that you attribute the national decline in the error rate since 1973 to the quality control program. I believe you indicated that this was also a finding of the Touche Ross study.

In testifying before this subcommittee, Dr. John Dempsey, director of the Michigan Department of Social Services, maintained that the error reductions in his State were not due to the threat of quality control sanctions. Rather, he said, that the reductions resulted from the efforts of his department to develop relationships with the U.S. Attorney and other law enforcement agencies.

He testified that in Wayne County alone, 200 people have been indicted and convicted for AFDC fraud in the last 2 years, in addition to another 200 public employees who were illegally drawing benefits. This, he explained, is the major reason why the Michigan ineligibility rate is going down drastically.

Dr. Dempsey suggested that Congress and HEW substantially increase the Federal Government's commitment to fraud detection and prosecution.

I wonder if you would care to comment on Dr. Dempsey's observations.

Mr. Wortman. I think Dr. Dempsey's judgment about his own State is one that I would not like to second-guess.

But from my own Federal experience, I must say that the imposition of a tougher quality control program in 1973 for this program is a singular achievement in good management and that the change was dramatic from what existed before. If you were to look in the background, and your report from the Congressional Research Service I think treats it well, the Social and Rehabilitation Service tried all kinds of management techniques on running quality control in the preceding years—in the late 1960's and early 1970's—and nothing happened. Then they got serious about it, and they put an investment into Federal staff to do the re-review of the State sample in order to assure integrity of that sampling system. All of a sudden, things started to happen.

Not only did States tune up, but the record in SRS when I got there in 1976 was such that the technical assistance kinds of agenda that SRS developed under the focus and the light of that quality control effort probably provided more meaningful technical assistance than I had seen in many years of administering social programs.

Mr. **Fountain.** Dr. Dempsey also made the interesting suggestion that any disallowance for State welfare errors be restricted to administrative expenses, because everyone knows it would be politically impossible for the Federal Government to withhold money that would deprive welfare recipients of assistance payments.

What's your reaction to that suggestion?

Mr. **Wortman.** I think in both the medicaid and AFDC penalty or sanction efforts I've been engaged in, that even though we as Federal officials say we're not taking it away from recipients—we're just taking it away from the State, when you get to the newspaper front page, it doesn't hold too well. By that time it is Uncle Sam doing something dastardly to people.

I think I would tend, as a citizen, to agree with what Dr. Dempsey has said.

Thus, you have seen in my statement and in Mr. DeGeorge's comments, that we have been in search for other kinds of rewards and penalties, and administrative expenses is one that we have considered.

What you would really like to do is affect some manager's salary, like my own, and make him feel the heat of better performance—also, maybe the rewards.

Mr. **Fountain.** How has the error rate experience in the SSI program compared with AFDC?

Mr. **Wortman.** The cash error rate in the SSI program for the period July to December 1976, in terms of payment error rates, was 6.9 percent, as compared to AFDC's national average of 8.5 percent.

For case error, SSI was 15.7 percent compared to AFDC's 23.2 percent.

Mr. **Fountain.** I think many of us expected SSI payments under the Social Security Administration's management to be relatively error-free when we federalized the adult welfare categories.

Mr. **Wortman.** I'd like Mr. DeGeorge to talk to that. He's had more experience at SSA.

Mr. **DeGeorge.** I have been with both the AFDC and SSI programs. I think error free is a place we'll never get on this program, despite our enthusiasm about reaching it.

I would point out that we have information for the present quarter of January through March on the SSI program which shows that we are just about at 6-percent dollar error rate. The preliminary information of April through June is even lower than that.

So, at this point in time, we feel that we're below a 6-percent dollar error rate for the SSI program. As an objective that we have with the Secretary, we've made a commitment to get that even lower through the next year or two. We've also made a commitment on the AFDC side with the Secretary to get it down to 6 percent by 1981.

Now that may sound high, but I have to put in reference that we started again on AFDC at 16 percent and we're now at 8 and we're committed to go to 6. We started in SSI at 11. Now it is slightly below

6, in my judgment, and we're committed to go even lower. So as a point of reference, both programs are substantially better. But neither program will ever be error free.

Mr. FOUNTAIN. Has SSI done any better than the States have in reducing rates since 1973?

Mr. DEGEORGE. As the Deputy Commissioner indicated, yes, sir. We have been somewhat ahead of them. As an example, if I go from July to December 1974—and I will deal with total payment error rates—AFDC 13.6, SSI 10.9. If I skip to July–December of 1975, it's AFDC 10.2, SSI 10.9. Then we start dropping quite substantially.

At this point in time, we are about 2 to 3 percentage points better than they are. We seem to be falling at a faster rate than they are.

Mr. FOUNTAIN. Of course, you have a simpler situation because your program is more standardized.

Mr. WORTMAN. Yes. We did learn a lesson in SSI. That is, in SSI we provide for the Federal Government to operate for those States which choose a supplement of their own design; whereas, in the better jobs and income program, we will only accept matching supplements. They must use the same family unit definitions. They must use the same income definitions. And that's the only way we'll run that program. This nonmatching State supplement for SSI has been a major cause of our errors.

Mr. FOUNTAIN. Would any particular actions taken to correct errors in the SSI program be helpful if applied to the AFDC program?

Mr. WORTMAN. The one point that the earlier witness made that we also agree with—and I think you'll find a certain commonality of views about corrective actions; I don't think there's a lot of disagreement—is vigorous redetermination, done on schedule. That will get you a lower error rate, and it will have a dollar return for you.

Mr. WYDLER. I would like to just go back to that last question.

You say one of the major problems with SSI is the——

Mr. WORTMAN. Nonmatching.

Mr. WYDLER [continuing]. State program.

Are you recommending any changes in it to make it be matching? If this is such a great idea, what are we doing about it?

Mr. WORTMAN. The welfare reform proposal is——

Mr. WYDLER. Let's forget the welfare reform proposal for a minute. That's going to take some considerable time to become effective in our country.

But how about something to clean up the SSI program in the meantime?

Mr. DEGEORGE. We have had discussions with the Department and made some suggestions for a simplification of the legislation of SSI.

There is considerable debate as to the extent and applicability and usefulness of specific recommendations. But the Department and OMB are discussing legislative simplification that should drive the error rate down.

Mr. WYDLER. Particularly, I am referring to what Mr. Wortman just said here.

He said that one of the major problems, if it's true, is that you don't have the same requirements at the State level.

Mr. DEGEORGE. We permit a number of variables which basically was a secretarial decision in the SSI program.

What we mean by variables is, say, the difference between Buffalo and New York City—in the sense of New York City wanting to pay a different income level for housing, or something of that nature, or a different supplemental payment. You have different physical locations and different family living circumstances. A State is allowed many variables in those types of arrangements right now. It would be much simpler if there were fewer variables.

Mr. **Wydler.** I don't understand all these systems.

If we're going to try to do this in a nationwide program, and we make that a legislative recommendation that we do it for welfare reform programs, why can't we do it for SSI? Why is it impossible to do it there and possible to do it on the national program?

Mr. **DeGeorge.** Your point is valid. There are many administrative steps we should be taking.

Mr. **Wydler.** If it's valid, then what I want to know is: Are we recommending that such a change be made? What are we doing about it?

Mr. **Wortman.** We recommended, on some of these things——

Mr. **Wydler.** But the point is: Are you doing anything to get the change made?

Mr. **Wortman.** On a number of fronts we've been trying to simplify both AFDC and SSI.

I must acknowledge before this subcommittee that one provision we know is high error-prone is the work expense deduction presently provided in the Social Security Act. We have recommended to the Congress that they standardize that. Right now, as it stands, the major bill out of the House doesn't address that issue. The one in the Senate does.

But that's an illustration of where we've taken an experience from our quality control and have come to the Congress for legislative corrective action.

Mr. **Wydler.** Mr. Wortman, the question I'm trying to get an answer to is this.

It was thought that we would take the SSI program and simply say to States who have supplement programs that they will adopt the national standards in this program for your supplement program.

Mr. **Wortman.** A part of our major areas.

Mr. **Wydler.** Then why don't we require them to do it that way?

Mr. **Wortman.** Because the program has been in place for a few years now, and the States have a system in which they would be somewhat reluctant to adapt because it may mean that some people would get less money.

Whenever you adapt some of these reforms, you have the problem of some people being worse off than they were before in terms of benefit level.

Mr. **Wydler.** But you're talking about putting in a national welfare program. You're going to have that problem in spades if you do that.

Mr. **Wortman.** We've had to address that too. We have many provisions in there which have to do with grandfathering—especially the SSI recipients.

We are encouraging that the current aged, blind, and disabled benefit levels be grandfathered into the new program for those people until their circumstances change. But the worse-off problem, as we call it and the economists call it, whenever they go from one program to another, is such that you always have to consider some grandfathering provisions, and we have that in better jobs and income.

Mr. **Wydler.** I'm sorry I interrupted, Mr. Chairman.

I am going to have to leave. I have one question that I would like to ask first.

You heard the previous witnesses. One gentleman had five suggestions and the other gentleman had various suggestions on how you could improve the program.

Do you agree with what they said—the three of you?

Mr. **Wortman.** I would probably agree with many of their points. I would probably change my order of priority some. There are some things they didn't mention like monthly reporting. Or, at least, the chap from the Urban Institute did not mention it.

I certainly could not conclude here today the estimate that this would cut erroneous payments in half. I'd have to do some looking at that.

Mr. **Wydler.** I wasn't necessarily talking about all the dollar conclusions and so forth.

What I'm suggesting is his thoughts on what steps could be taken to help improve the operation of the program. Were they sound proposals?

Mr. **Wortman.** For the most part, they were sound proposals.

Mr. **Wydler.** I don't like the expression "for the most part," because we could spend a long time trying to find out what that is.

But if that's so, the real question I wanted to get at was what are we going to do about it?

Mr. **Wortman.** I could mention one that I think is more important than some he talked about. The evidence is pretty clear from our investments that monthly reporting, regardless of what kind of accounting period a State may use, may be the way to move. Our first attempt at moving in that direction, as the report from the congressional research service indicated, was met with unanimous opposition by the States.

I think they have looked at California; they have looked at what we are doing in Colorado; and possibly they're changing their views that this may be an efficient and a more equitable way to spend welfare dollar resources.

The Congress is sufficiently interested in that one that they have provided an appropriation for fiscal 1978 for $10 million for us to extend that development work to other states in urban areas. That is an area that I think has major dollar implications.

The other kinds of techniques that he's talking about, as far as the eligibility worker and better training and more readability, I contest that. That's why I said "for the most part." I don't think, for instance, even though we could make some progress, that this program is all that readable to an even literate American.

When you get into calculating, first, from gross earnings the work incentive disregards, the work expense disregards, the child care disregards, you're getting into a fairly complicated set of designs that the Nation has developed over time. I do not think that I could go home and explain to my mother and dad in a half hour session and do anything but confuse the heck out of them.

So some of these things I had the feeling that he had oversimplified what we could achieve administratively, given the current concept of a food stamp program, an AFDC program, and an SSI program—all with separate historical bases. But there are things that we can do, and we're committed to moving aggressively on some of those fronts.

Mr. **Wydler.** For the record, Mr. Chairman, I would like—because I have to leave now, and I'm sorry—you to comment on each of the suggestions, Mr. Wortman, that were made as to whether you agree or disagree with them, first; and, second, if you agree with them, what the Department is going to do to implement them.

Mr. **Wortman.** We'd be glad to do that, sir.

Mr. **Wydler.** Thank you.

[The material follows:]

In relation to Dr. Bendick's testimony, it should be noted that The Urban
Institute has not as yet submitted its final report to HEW. We wish to note
particularly that the measures he advocates in his five strategies to further re-
duce AFDC errors, are, in fact, corrective actions that the Department initially
identified to The Urban Institute as predominate measures that States have
undertaken and which we have encouraged and supported through extensive
technical assistance activities. Obviously, the Department supports these efforts.

Although the Department agrees with the intent of the general strategies pre-
sented, we question many aspects of Dr. Bendick's conclusions. Our comments
on the specific recommendations follow.

With respect to the recommendation for reducing the backlog of overdue re-
determinations, we would certainly agree that any backlog of work is undesir-
able. Dr. Bendick's figures giving an average and an outer limit affecting such
an average, clearly indicate that there is a wide difference between States,
some having no backlog whatever and others having a much greater backlog
than the average figure. In view of such practical situations mere dependence
on overtime may not be a feasible solution where there is too heavy a load to
overcome. In addition, where there is a substantial backlog, it is likely either
that staffing is inadequate for the normal workload or there are procedural
problems which impede expeditious completion of the work. A one-time catch-up
on the backload will not overcome a continuing problem. Furthermore, comple-
tion of a redetermination does not guarantee that errors will be reduced. Quality
control findings show that in three out of every five error cases, the error ex-
isted at the time the case was last redetermined. In terms of the estimated
savings, the basis for the figures given is not clear.

The second recommendation relates to the improvement of readability of
informational material and forms given to applicants and recipients. We have
no disagreement with the findings as to the level of reading and comprehension
difficulty of most public assistance documents. Our own tests have confirmed
this difficulty. Yet we have no basis for the conclusion reached by Dr. Bendick
that improvement in readability would result in a 2 percent case error reduction
and a savings of $120 million.

We concur with the need for more training of public welfare workers and
in this regard the Department has done much to focus States' attention on
the needs of the eligibility worker. For example, guide materials have been
issued on the types and sources of verification of eligibility factors, a series of
eight video tape films on improving interviewing skills for AFDC was produced
and made available to States, and a comprehensive training program for State
income maintenance training instructors was developed and carried out across
the nation. States, despite the more advantageous matching rate for training
expenditures, have been slow in providing the type and amount of training
needed by income maintenance staff. However, there is no reliable measure to
establish a firm cost effectiveness rate for training. We have supported one
highly controlled demonstration project to measure the impact of training on
reduction of errors. This is not sufficient evidence to draw broad general con-
clusions. We, therefore, take exception to the conclusion as to savings, even
though we generally agree as to the need for more training.

The fourth recommendation relates to simplifying rules for eligibility deter-
mination and consolidation of assistance standards. We support the contention

that such simplification is desirable and have already been successful in encouraging States to adopt methods of need computation based on "consolidated standards" of assistance and continue to encourage further consolidation. However, we cannot substantiate the conclusions in relation to additional error reduction and cost savings. Our experience has been that simplified rules and consolidation of standards are also due to factors other than efforts to reduce errors which is why consolidation plans adopted vary widely among the States. (In fiscal year 1977, 51 jurisdictions reported having consolidated their assistance standards to some extent—15 States had consolidated all items of need; 29 had consolidated all items except special needs; 2 had consolidated all items except shelter/utilities; and 5 had consolidated all items except special needs and shelter/utilities.) Regarding simplification, it must be recognized that much of the administrative complexity results from complexities of law. In respect to the recommendation for a simplified method to compute work related expenses, the Administration has submitted to the Congress a legislative proposal recommending a new income disregard in lieu of itemized work related expenses.

With respect to Dr. Bendick's fifth strategy recommendation for developing selective action systems, we agree with his general thesis, recognizing that his statement tends to oversimplify the transferability of State models to other States. The Department has been supporting, under special 1115 project funding, West Virginia, Texas, and New Hampshire in their development of automated selective verification and error prone profile systems.

The Office of Family Assistance of the Social Security Administration, in line with the Secretary's priorities, will put forth special effort to encourage States to implement the use of error prone profiles. To this end, special studies are currently in progress to identify the most suitable models according to differing State situations and to provide such technical assistance as is needed to implement these models wherever feasible and practicable. We would be hesitant to estimate dollar amount savings on the result in terms of error reduction. The error prone profile is an administrative tool the success of which depends to a great extent on how well it is used. It could be useful also in preventing work backlogs and meeting Dr. Bendick's first strategy objective.

In summary, while we agree with the usefulness of the measures suggested by Dr. Bendick, we are not prepared to concur in the dollar savings that he estimates.

Mr. FOUNTAIN. Your agency, I might add, will have access to the full hearing record of this subcommittee for whatever use it may care to make of it.

What is your opinion as to whether or not part of the problem in getting States to improve administration is the fact that Federal-State matching rates differ between administrative costs (50–50 matching) and benefit costs, which vary from a 50 to 75 or 80 percent Federal share?

Mr. WORTMAN. I think you'll find a lot of different opinions on that, Mr. Chairman, and maybe you've already developed that in your hearings.

Earlier today they talked about the dollar incentives. Another point that I'm not sure I agree with that the gentleman from The Urban Institute made was that he saw a correlation between the amount of dollar participation and error. I would certainly want to subject that to more careful study. My own view is that the 50–50 match is not as determinative of State commitment to better management as, one, the political and managerial leadership within that State and, two, the kind of political constraint they may have on the hiring of civil servants to run the program. Those kinds of constraints sometimes are over-arching and over-riding in dollar investment.

Mr. FOUNTAIN. I was wondering if this wasn't part of the problem—the fact that the administrative costs are shared 50–50 and the benefit costs vary. Do the States use that as an excuse not to improve administration or as a disincentive for improvement of administration?

Mr. Wortman. I doubt it. We have such a maze of sharing—Let me be more responsible as to why I feel that way.

There is a maze of Federal-State sharing factors in the Social Security Act. You can get 90 percent Federal money for the design of the medicaid management information system. You can get 75 percent Federal money for the operation of the medicaid management information system. I do not feel that those two richer incentives have proven to me that they get the response that the Congress hoped they would get.

Mr. Fountain. Dr. Goldberg?

Dr. Goldberg. Do you feel, at this point in time, that there is still justification for variable matching where the rich States have to put up half the dollars in AFDC and the poorer States put up only 20 percent?

Mr. Wortman. In the last year when I was at the Social and Rehabilitation Service, there had been increasing interest by the planning and policy staff at both the department level and the SRS level of taking a fresh look at that. on the assumption that that kind of rationale may be outmoded in our society today.

Dr. Goldberg. Has the department, or your agency, reached no firm conclusions on the merits of this question?

Mr. Wortman. No, sir; we have not.

Mr. Fountain. In reference to recent error rate reductions claimed by HEW for AFDC, how much of the recent error rate reductions were due to HEW changes in the way the error rates are produced? Specifically, has the "second subsequent month" rule produced a significant reduction in error rates by "ignoring" errors until a welfare agency has had 1 to 2 months to correct them?

Mr. Wortman. The study that the contractor did would indicate that of our total error reduction over the last 3 years, about 17 percent is attributable to defining errors differently. I would not disagree with that figure. I don't think Frank DeGeorge would either. We have defined things differently, and I don't put that in a context that we're trying to kid anybody. It's just that the program is one of evolving sophistication.

Mr. DeGeorge. If I might add, Mr. Chairman, the definition of payment error no longer includes a change that takes place in a person's case at about the same time his check is issued.

It is physically impossible to make a correction to a check on the first of the month when the person walks in and says: I've changed my living conditions on the 29th of the previous month. There is simply no way one could calculate that as being a deficiency of a State or any other Federal administrator. So some of the definitions, from HEW's viewpoint, have basically been just a practical application of administrative problems.

That specific one was pointed out and pressed on very hard by the States. They basically say: We cannot adjust a check 2 days before a person reports to us. So the concept was basically to say that if you came in during the month, we could perhaps lean too far one way, but that you had to adjust the second subsequent month—the 29th of July, the 1st of September check had to be adjusted. This basically is a maximum of 55 days.

Dr. GOLDBERG. With all due respect to the rationale for measuring the error rate differently, the fact that it is being done differently does vitiate to some degree, does it not, the comparison of the error rate reduction for the current 6-month period as against one a year ago?

Mr. DEGEORGE. I would have to agree with your statement to the extent that you cannot draw down comparable numbers. Having been away from SRS for a few years, I am not totally familiar as to exactly the changes that were made, such as in WIN registration and when basically errors are reported or taken out.

My general view is that the error rate reduction has still been substantially caused by the presence of the data and that, in effect, we have not defined away the problem.

Dr. GOLDBERG. Would it be possible for you to submit a comment for the record on the extent to which the change in the method of measuring errors might affect the previously reported figures?

Mr. DEGEORGE. Certainly.

Mr. WORTMAN. We'll do that.

[The material follows:]

A recent study, "Evaluation of AFDC-QC Corrective Action," by Touche Ross and Company under contract to HEW includes the only available data concerning the impact of changes in method of measuring errors. In a sample of fifteen States, Touche Ross found that the redefinition of errors associated with the administrative period and the waiver of errors associated with the implementation of Title IV-D program accounted for 3.7 percentage points of the reduction in the case error rate and 1.6 percentage points of the reduction in the payment error rate between April 1973 and June 1976. The case error rate and payment error rate had declined 16.2 and 6.5 percentage points, respectively, over that period. While the fifteen States represent approximately fifty percent of the AFDC national caseload and fifty percent of the national administrative costs, caution must be exercised in assuming these findings are statistically representative of the nation as a whole. These figures do indicate, however, the general magnitude of impact of the changed error-measuring criteria on error rate reductions.

Mr. FOUNTAIN. Recognizing that AFDC eligibility standards vary among the States, has your Department made any effort to develop a model administrative manual, as well as a more simplified application form, for the guidance of those States that might wish to adopt such management tools?

I ask this question because the subcommittee received testimony that a model manual would be very useful in places like New York City where the rules and procedures reportedly have not been codified.

Mr. WORTMAN. In terms of the simplified application, the Department has made a number of investments, including one that your congressional research service in its report to you acknowledged. That's called single purpose application and automated referral systems—SPAARS—in Colorado.

On the systems side, in terms of common eligibility data banks that would be useful for food stamp, general assistance, AFDC, and maybe social services kinds of eligibility determinations, we have invested there.

As far as a model manual, I cannot speak to that.

Mr. HURWITZ. We have not, and it has not been practical because of the fact that each State's standards of assistance, their method for determining payments, and payment levels differ.

In the case of New York State, which is county administered, New York City does things differently than every other one of the 65 counties—or whatever number there are—in New York State. It would be practically impossible to devise a system in that State which would cover all of the needs that the counties or the city of New York have, as well as the up-State counties.

The single manual has just not been practical.

Now we have tried, in certain areas, to develop uniform manual material that would be useful to the States. When we have found good procedures in a particular State, such as in the quality control work, we have then sent publications which we call, "How They Do It," or "Management Aids" to the States indicating what good practices are, so that the States can adapt them. Each State would have to do that. Generally, they cannot take what another State has done in total and adapt that to its system.

Mr. FOUNTAIN. I wonder, if such an approach were practical, if that might serve as an incentive or an example for States to follow. Sometimes they need an example of how they can do it themselves.

While I realize the problem you've mentioned, I was thinking about the guidelines up here that sometimes become guidelines down there. If they know what they are.

Mr. WORTMAN. The Secretary of HEW has launched "Operation Common Sense" in order to further refine our own regulations and make them more readable so that they can be translated down the system better.

I would say that the array of technical assistance materials that over the years have developed around AFDC are pretty useful products. But given 54 jurisdictions and with New York and California with county-based welfare systems, the amount of standardization we can crank in at this point which is useful for the intake worker is limited.

Mr. FOUNTAIN. I realize the complicated nature of your problem. Are you able to summarize the major findings of the Booz, Allen, and Hamilton study which you indicated may soon be released? Can you give us some of the highlights of it?

Mr. WORTMAN. Yes, sir.

This was a study that we had conducted in order to help us look at this overhead cost problem. They took a look at six sites to find out whether there was any comparability as to what drove the administrative costs in the administration of AFDC at the State level.

They found that a lot of the problem had to do with some States running a more complicated program in terms of eligibility; some had more frequent changes in policy. That's one thing that Dr. Dempsey has continuously complained about to me personally. And the lack of uniformity that they are called upon to administer between the various Federal efforts and their own local programs. They are also critical and also point out that Federal leadership could be more aggressive in trying to reduce the extremes of performance.

Their recommendations have to do with the Federal Government taking a stronger leadership role in defining administrative policies and standards, and that we should develop a set of minimum performance standards by which we judge State performance. They would also suggest that we expand what we're currently doing in the way of State technical assistance grants.

A point you earlier talked to me about, they would probably have us increase the Federal share for administrative costs. And I think I indicated that I don't know that I agree with that.

They took a look at caseloads in six sites, two each in California, Connecticut, and Texas. We think this will give a good, solid base for developing a more aggressive program, or at least learning about administrative costs, even if we conclude that not in all States do we want to reduce them. In some States, additional investment may be warranted. It may be a cost-beneficial investment.

Mr. Fountain. As I understand the President's welfare proposal, income would be measured retrospectively, using an applicant's actual income, over the preceding 6 months. Is that right?

Mr. Wortman. That is correct.

Mr. Fountain. A number of States have found monthly budgeting—whether retrospective or prospective—a very valuable tool for validating eligibility and the accuracy of AFDC payments.

In addition, as you pointed out, some States vary the frequency of eligibility redeterminations according to a client profile system.

Would you explain how the President's proposal will affect monthly budgeting and continued use of a profile system?

Mr. Wortman. The President's proposal builds on the monthly reporting experience that some States have had. It explicitly builds on the retrospective accounting that has been demonstrated to be much more efficient in terms of benefits being paid. We have a Colorado experiment, and we have had an income experiment in Gary and Seattle and New Jersey.

California now requires monthly reporting—and we're talking about a big system now, so we should be able to extrapolate from that to the Nation with some degree of confidence. To meet the immediate cash needs of people, though, they do permit 2 months' prospective payment for the first 2 months you're into the program and then the monthly reporting triggers in and your benefit is varied by month, depending on your income and asset situation as you report it. So it's based on that experience.

It is this experience and the positive results from it that caused Representative Flood in the House Appropriations Subcommittee to add $10 million explicitly for extending that development to other areas. The main remaining question was to go to some Northeast urban areas and see if the discipline of the monthly reporting could still be administratively done.

Mr. Fountain. Would you explain how the proposed "emergency needs" program would operate to assist people in special circumstances, where the previous 6 months' earnings are not relevant to a family's present plight?

Mr. Wortman. In that part of the President's program, we're providing a $600 million grant to the States wherein they could issue, on their own responsibility, emergency checks to people in view of the timelag inherent in the retrospective accounting concept.

Even though we feel that we can deliver checks within 45 days from the time a person first applies, assuming their 6-month record of income is such that they are eligible, there is that time gap of some families coming in and needing money right away—within a matter of days—that day or the next 2 days.

Mr. Fountain. Will you explain what standards would be used to guide State expenditures from the proposed annual block grants to the States for use in cases of emergency need?

Mr. Wortman. The guidelines we have developed in the proposal thus far are fairly broad and flexible. They are patterned somewhat after title XX of the Social Security Act and require a State plan to be submitted and the Federal Government to approve it. The grant would only go to this emergency assistance. They cannot continue this assistance indefinitely.

Mr. Fountain. Dr. Goldberg?

Dr. Goldberg. In the development of the President's proposal, was consideration given to adopting the California procedure which was described a few moments ago? I understood you to say the initiation of the assistance payment in California is based upon prospective accounting for a couple of months, and then it becomes retrospective on a monthly basis. Is that correct?

Mr. Wortman. Yes, sir.

Dr. Goldberg. Was consideration given to adopting that arrangement rather than a purely retrospective system linked to emergency grants which, as I understand it, will permit the States wide latitude in deciding how they're going to meet need under special circumstances?

Mr. Wortman. We looked at that system. We looked at 3-month retrospective. And we looked at 6-month retrospective periods.

The carrot, in terms of the concept of 6 months, is twofold: One, a greater equity is provided in terms of leveling off income over time for a family. And, two, our evidence indicates that it has significant dollar savings as compared to the other two measures, and thus it was highly desirable.

So we did look at all of those. It was for the latter two reasons that we went with the 6-month retrospective.

I would assume though that that concept is a radical departure from current welfare. I'm sure the House Ways and Means, Education and Labor, and Agriculture Joint Committees will be looking at that concept in some detail here in the next few weeks.

Dr. Goldberg. The emergency needs block grant may turn out to be more expensive than adopting a type of system where assistance is initiated on the basis of prospective accounting.

Mr. Wortman. That is the argument; you are correct. That is the argument of people who would hold for going more to the California system.

The $600 million, we are the first to admit, is more of a guess estimate than some of our other estimates in terms of our not having a firm base on which to estimate that.

Dr. Goldberg. Let me ask you one other question about the administration's welfare proposal.

The Federal Government will be administering some State money in the form of State supplements. Is that correct?

Mr. Wortman. Yes, sir.

Dr. Goldberg. Is there any provision for the Federal Government to pay the States for erroneously spent State dollars, as determined by quality control error rate determinations?

Mr. Wortman. We have included some language in the proposal that does not provide for any return to States for dollars erroneously spent that we administer through the State supplement system. But we have committed ourselves that any rewards or penalties that we design will be equally applied to the State or to the Federal Government. I would have to get that provision to be more precise than I can be this morning.

Dr. Goldberg. Wouldn't there be some merit in reimbursing the States if the Federal Government, through its administrative efforts, misspends the State supplement? This has been a problem, as I understand it, in supplementation in some cases under the SSI program.

Mr. DeGeorge. Yes; it has. But I think it's particularly ironic that, in effect, we would say under a new welfare reform program that we should reimburse the States if we misspend the supplement when in the present AFDC program, by anybody's calculations, the States are spending substantial amounts of Federal money incorrectly; and we are prohibited in almost any direction we turn from recovering that.

Dr. Goldberg. But that's not really the issue. I think many of us might agree that some kind of sanction or penalty should be applied if the States improperly spend Federal money.

At the present time, the court decisions have estopped you from proceeding in that fashion.

But putting all that behind you and looking forward to developing an equitable welfare system, where the Federal Government is undoubtedly going to permit State supplementation because of a wide variation of living levels throughout the Nation, the question then becomes: Isn't there an obligation on the Federal Government's part, from the standpoint of equity, to reimburse the States when the Federal Government misspends State funds?

Mr. DeGeorge. I think there should probably be more of a principal-agency relationship here than exists today. If, in effect, the States opt to pay a supplement, and the program is administered by the Federal Government, then the States should have to live with the results. I think that's one argument that deals with the problem.

Mr. Wortman. If we're bright enough, maybe we can find some relationship between the point you're making and the fact that many States will retain administration of intake if this program is passed by the Congress. Some of them will not perform well. I can tell you that right now. Some will and some won't. Maybe we can tie the two together to get a better response. I don't know. That's something down the pike that we'll have to think about.

Mr. Fountain. Would you compare the welfare standard under the President's proposal, both for working and nonworking family heads, with the official poverty level, earnings at the minimum wage, and the Bureau of Labor Statistics' lower level budget.

Mr. Wortman. The President's program has a two-tier structure—those expected to work and those not expected to work.

Under tier 1, a two-parent family where a job is available would be assured a basic income of $2,300. In addition, the first $3,800 of earnings would be disregarded.

Under tier 2, the national basic benefit would be $4,200 for a family of four with no other income. This tier would include those persons not expected to work, such as single-parent families with children under age 7 or two-parent families with young children where one parent is incapacitated.

The poverty threshold for a nonfarm family of four in fiscal year 1978 is $6,384. The latter figures I'll have to provide for the record.

Mr. FOUNTAIN. Will you please submit that for the record?

Mr. WORTMAN. Yes, sir. I will.

[The material follows:]

1. The Bureau of Labor Statistics' lower level budget for a family of four is $11,155 as of June 1977.
2. A person working full-time at the minimum wage of $2.65 per hour—as of January 1978—would earn $5,512 on an annual basis.

Mr. FOUNTAIN. What percentage of AFDC family heads work sometime during the year, and what is the median income of those wage earners?

Mr. HURWITZ. About 10 percent of the AFDC recipients work full time. The percentage that work sometime during the year is rather difficult to get ahold of. But estimates have been made as high as 50 percent.

For those who work full time, they obviously don't make very much or else they wouldn't be on AFDC. As a general rule, their wage levels are very low. That's one of the reasons they're on assistance. The estimate is that about 16 percent of the AFDC population works at one time, but that doesn't cover the amount during the year.

Mr. FOUNTAIN. What is the median income of those wage earners?

Mr. HURWITZ. I don't believe we know. We could try and find that for you.

Mr. FOUNTAIN. Would you see if you can get that for us if it's not too much trouble.

[The information follows:]

According to the biennial study of AFDC families conducted by the Department of Health, Education, and Welfare in May 1975, 29 percent of AFDC families had income from one or more other sources during the month. The study found these percentages of AFDC families to have the following kinds of income:

	Percent
Earnings[1]	14.9
Child support payments:	
Court-ordered	4.3
By parent's agreement	3.3
Social security benefits	4.0
Veterans' pensions	0.7
Unemployment compensation	1.1
Contributions from persons in the home	1.3
Other cash income	1.1
In-kind income[2]	1.5
Other pensions or benefits	0.5

[1] Includes 0.3 percent of families who had earnings from public service jobs in the work incentive program.

[2] Does not include the bonus value of food stamps, for which all AFDC families are eligible automatically, and which had an average value of $100 monthly for three-fourths of the participating AFDC families. The Food Stamp Act states that for any purpose under Federal or State law the bonus value of food stamps cannot be considered income.

Among 29 States with sufficiently large samples to yield reliable State tabulations, the 1975 study found sharp variations in the incidence of non-AFDC income. The proportion of families with any non-AFDC income ranged from a low of 10.3 percent in Ohio to a peak of 67.6 percent in Nebraska. For those with earnings, the range was from 6.4 percent in West Virginia to 34.9 percent in Maine; for those with child support payments, from 1.5 percent in Massachusetts to 23.7 percent in Maine.

Of AFDC families with such form of income, the 1975 study found that May amounts averaged $301 in earnings, $94 for court-ordered and $73 for parental agreement child support payments, and $129 in Social Security benefits. The overall average amount received in total non-AFDC income was $212 for families with any such income. In the same month AFDC payments to all families in the program averaged $216.

According to HEW's biennial study, 16.1 percent of AFDC mothers worked in May 1975, 10.4 percent full-time and 5.7 percent part-time. Reported earnings of working AFDC mothers that month averaged $304; May earnings of children aged 14 and over averaged $161; of fathers, $269.

Mr. FOUNTAIN. Mr. Brown?

Mr. BROWN. Thank you, Mr. Chairman.

Mr. Wortman, I'm concerned about the program from two standpoints. First, the question of whether or not you can make the recipients of welfare work and, therefore, reduce—and I guess I'm really thinking of three standpoints here—the burden on the rest of the economy.

Second, the question of whether or not some people are benefiting from the program to an extensive degree in the order of the CBS "60 Minutes" program that indicated a father and family that were receiving, among other welfare benefits in Boston, Mass., AFDC. They had a total family income of about $20,000 a year.

I think that is not the way the system is supposed to work.

Third, the question of whether any of this can be solved by better administration and how we set up the administration.

I'd like to start with the last one first.

I represent two different kinds of areas. One is a rather well-developed metropolitan area. I have a suburban area which is not wealthy where welfare is a factor. And some small cities of less than 100,000 but not much less than that where it's a factor. And I represent some rural areas where the population is considerably more stable and where welfare is also a factor.

As I'm sure you are aware, a lot of people on welfare come from those areas, because of the nature of the job opportunities. But also a lot of them go to those areas because of the nature of more economical living conditions.

In the latter area—the rural area—where families are better known and individuals are better known by the people who administer the program at the State level, the concern I have had expressed to me by local welfare and social workers is that many of the incongruities in the program—for lack of a better term—are the result of Federal mandates, whether by law or regulation, that require the local social workers or welfare administrators to do things that seem to be illogical and counterproductive with reference to cleansing the rolls of those people who could work, or better, sustaining those people who cannot.

I would like to ask if there are any methods by which you regularly try to determine if people at the meatcleaver level of social benefit programs, how they should be improved from the standpoint of Federal regulation of administration.

Do you have any provisions for feedback in the field, in other words?

Mr. Wortman. Our primary feedback systems, in terms of national administration, are through the American Public Welfare Association and its various bodies. It has an organization for county administrators and one for State. The more influential one is the State administrators.

Mr. Brown. In other words, these are institutionalized methods which I would suggest might very well be screened before they ever get there.

Mr. Wortman. There are limitations to those feedbacks; that's correct. We have the National Welfare Rights Organization which represents the——

Mr. Brown. The recipients.

Mr. Wortman. Yes.

Mr. Brown. Who, for the most part, want more welfare benefits.

Mr. Wortman. Yes, and they want it administered with more fairness and timeliness.

We get feedback through the National Association of Social Workers, where you get a lot of your eligibility and social worker frontline troops. That's a huge national professional organization.

Mr. Brown. But, again, this is institutionalized?

Mr. Wortman. Yes; it is.

We have 10 regional offices in which we have people in contact with States, not only in a quality control sampling frame but also in regular visits to the States to monitor performance. That doesn't necessarily mean that they're sitting down and talking to the eligibility workers, but they would be doing some of that. We have from time to time public forums around the country, but I'm not sure they would necessarily have the freedom to come to those. But these are the kinds of things we do as far as getting feedback. Mr. Hurwitz might have something to add.

Mr. Hurwitz. There are a couple of ways that we do get feedback that are not institutionalized. They may be in the sense that they're a process that we follow; but we do receive letters in quite substantial numbers from recipients primarily and occasionally from other people in the community who are concerned about the public welfare program.

We also have a requirement that is in the law of a fair hearing for people to decide that they are being unfairly treated or denied assistance or their grants are cut.

We follow those, and occasionally you get a good idea of what's happening in an agency and with the program. They do reflect what's happening at the worker level.

With regard to the 10 regional offices, Commissioner Cardwell has been very concerned with getting a better readout from the States of what their problems are in program operation and organization. He stressed the fact that he wants State teams which are much more familiar with what's been going on in the States than we have been in recent years.

He's put great emphasis on that.

Mr. Brown. I'm inclined to question how sincerely interested you are in improving the program.

The reason I say that is because what I get from the social workers usually when I go out and visit the local communities is that they will come in and almost invariably open up the conversation with:

> I know this isn't going to do any good, but I just want to tell you because it's on my mind. The program is administered impossibly. Here are some things that I have had to do lately, and from a taxpayer's standpoint I don't think it's right.

Then I say: "Have you talked to your supervisor?" and so forth. And the person invariably fixes me with sort of a sympathetic gaze and says: "But, Congressman, these all come down from the Federal level, and we assume that you are in some way responsible for that part of the requirement." Of course, not being directly involved with any of the committees that have direct jurisdiction over the program, I try to plead innocence but I know better. I am implicated by the inability of the system to operate effectively. That bothers me.

We have recently passed legislation out of this committee which established an office of Inspector General in HEW, but I rather think that the legal limitations of that are going to be with reference to Federal employees and whether or not they have done their jobs and not the people who are, again at the firing line or in the trenches on this issue.

I would just like to suggest to you the possibility of someday sending somebody who is in a decisionmaking capacity out into the field and calling some of these people together and asking how we can improve the program.

I think you would get some startling suggestions, including a review of some of the decisions.

One case that comes quickly to my mind is the case of the welfare family that disposed of their furniture and then put in a request for the furniture, but they needed the money for a nice wedding for their youngsters. The social worker could watch this process occur.

The story was written up rather extensively as a nice social occurrence in the local paper.

After the kids came back from their honeymoon, they came in to apply for welfare, too.

Somehow, for a lot of my constituents who can't afford the nice wedding—and then, of course, they replaced the furniture—it becomes so offensive that they have no use for the whole program.

I think that ill serves a program which is designed to help people who are in real need.

In this story, the explanation I got was that the social worker had no choice but to watch this process and be complacent in it because of the nature of the requirements that she had to follow in terms of doling out benefits.

Mr. Wortman. I would like to track that down. It might be good education for both of us.

Any kind of disposition of assets immediately before—such as disposing of your house or your three Cadillacs or your yacht——

Mr. Brown. I didn't say Cadillacs or yachts. I said furniture.

Mr. Wortman. I can assure you that most States—and I can't speak for all 54 jurisdictions—do not permit any of that kind of significant disposition of assets prior to going into apply for welfare.

Now whether you catch it all the time is one thing, and we can talk about that a bit. But the States are very careful not to let people dispose of assets in order to become eligible for medicaid or AFDC, et cetera. They have talked to us at great lengths in the development of better jobs and income about how we have to adopt policies like that.

There is possibly another aspect to the frustrations of social workers, however, that I would like to address.

It is not just making sure that the people who are currently on the rolls are there and are needy; it is the whole irrational system that exists with this patchwork of programs that have gone up over time.

I sympathize with any intake worker or social worker at the county or city level—rural or city—who has to administer this set of programs that we have in this country. They have to know food stamps eligibility, which is different than AFDC—even the family composition is different, the measurement of assets is different, how you treat and measure earned income is different.

Then the State has its own general assistance program. Your State would have one.

They must then know medicaid and some States have added a medically needy program. Your State, I think, has one. Not all do. That has a little different income criterion.

That intake worker must know all of those programs and apply it to a family unit. The family unit shifts on him, depending upon which program they are interested in receiving.

It is that patchwork quilt that increasingly we have been trying to address in this country with a better proposal. And now President Carter has come forward with better jobs and income to try to get at the basic irrationality of this system.

Mr. Brown. I congratulate President Carter. President Nixon tried it, too. Essentially, I think it was the same program. I hope he has more success than President Nixon had with the program. Of course, he has the Congress that should be a little more supportive. Although in recent days in the energy area, there is some question about that.

I suggested to this gal that I could get her connected up with some people who would be on a more responsible level than she, in terms of writing the regulations, to get her suggestions.

Her cynicism was beyond belief. She said: I can't be bothered; I'm too busy trying to administer the silly requirements. I've written my letters, and I'm past that point. I was just passing by your trailer, and I wanted to let you know what I thought. And, really, Congressman, it is your responsibility to try to straighten it out, isn't it, when it's messed up.

I think a lot of us in Congress feel the same kind of total frustration.

Mr. Wortman. I've seen the same cynicism as a Federal official on public forums. I see the same cynicism and it hurts.

Mr. Brown. Never mind the sort of total reform and the political implications that flow from it.

Isn't there some way just to reform the regulations to have somebody in HEW go through the regulations and try to simplify and rationalize them and then come back to the Congress.

I would be absolutely astounded if anybody from HEW ever came up and said: That's a rotten social program that you're attempting now to start anew, because it does not integrate with anything that we're doing. Food stamps is a good case in point.

But we'll never get that out of HEW.

I guess it relates to the welfare rights organization people. They always seem to be anxious for more programs because it means more administrators and more bureaucracy and more funds.

Does anybody ever come up and testify on rationalizing all these programs?

Does anybody in HEW study it? Is there any overall part, under the Secretary and the people involved in the welfare side of it, that are looking at it and trying to cut out some of the underbrush and say: Let's get some clean rationalization of the program on a continuing basis.

I know of no such in the welfare side of HEW.

Mr. WORTMAN. I can only respond on a number of fronts:

One is in terms of actual eradication of fraud in the current program with the new Office of Inspector General, contrary to what your impression was—I think you made some allusion to the fact that this was primarily going to get at public employees——

Mr. BROWN. Federal.

I don't see how they can go into States and go after State employees for malfeasance, misfeasance, or nonfeasance in administering State law. I don't think they would have the authority.

Mr. WORTMAN. But I think the example we're setting is encouraging States to do more of that.

We have cross-information.

Some of the earlier attempts at matching information were not Federal. They were in Wayne County and Cook County. They were local efforts to match public——

Mr. BROWN. Let's shift to that point if I can.

On page 4 of your testimony you state that it's imperative that the Federal Government and the States continue to make improvements in the current welfare programs in order to facilitate the transition to a new welfare system.

I think that's laudable, but I also think it's terribly naive, because if the system is going to be nationalized, I'm not sure I see what merit there is for the State or the local community to continue its efforts to cross-check for fraud or to do the other things.

What State budget administrator is going to come in and say: Governor, we have to have more money so we can clean up this program so that when the Federal Government takes it over, at least from our end, we've done the best we can?

My guess is that if they see now the prospect that they will dump this all into the Federal bureaucracy, that the States will cut their budgets in trying to administer the program.

If I understand correctly, that is the thrust of the President's proposal. That he wants to move the Federal Government in on the program from the standpoint of administration and move the States and local communities away from it. Isn't that correct?

Mr. WORTMAN. No; that's not true.

The President's proposal for better jobs and income leaves the option to the Government and the State to decide whether they want to continue to operate the intake function—the eligibility, information collection, face-to-face contact with the family unit.

Mr. BROWN. But given the expense of that and all the demands on State budgets, do you really think many Governors will say: We're going to hold onto it, because we think we can do it better than you can, Mr. President.

Mr. WORTMAN. They might hold onto it for a couple of reasons.

Mr. BROWN. They may think they can do it better than the Federal Government can, but I doubt if they'll hold onto it when they have all these other demands for their budget dollars.

Mr. WORTMAN. Opinions vary widely, Congressman, about how they're going to react to the proposal.

Right now it is such that if they retain it, there are reward provisions and incentives in the law that would provide them some small incentive for retaining it. They could even gain more in the way of Federal dollars for the administrative costs than just the sheer costs of those people.

We have a provision in there that they get 110 percent of their costs of administering the intake function if their performance is exemplary.

I think the other thing that I would point out is that States right now have 50 percent of their own State dollars in these programs.

If you want to know why they're not administering the programs, it ought to be more of an historical question. Some States, putting as much money as they're putting into it, are not doing a good job.

Mr. BROWN. I think that's why some States are trying to clean it up.

When you have, or think you have, the key to the mint in New York, you may not wish to clean it up until you run into the kind of situation that New York has run into. Then all of a sudden you discover that there is a problem here that you'd best address because you're bleeding to death.

In some States, I think there has been an effort to try to clean it up, but I think it's because the local dollar has been involved in it.

I must tell you that in my own State of Ohio, even natural resources funds from the Federal Government are being turned down, simply because the State is running up against the fact that there is increasing rebellion about ponying up more State money in order to take advantage of all these wonderful Federal funds, that, of course, are being printed in the first place.

There is a feeling that they're getting sucked into the same kind of thing that New York is into now.

I just have the feeling that the incentive for the State to get more money out of the Government by spending more money of their own isn't going to be as attractive as it used to be when the programs were getting started and all seemed to be free.

Second, I'm not sure that they won't look at the program and say: It is now moving toward federalization. We will get out of it, and even reduce our effort to save on our own dollars because eventually the Federal Government will take over those dollars.

I'm not altogether opposed to that idea of federalization in logic, because it occurs to me that it will move welfare folks into Mr. Carter's part of the country because it will be cheaper to live there.

Maybe it will relieve some of the pressure on some other parts of the country. I don't know. But I think the economics of it are not all that sound yet.

I didn't mean to get into that.

But if I can only make one point to you on my questions, it would be to see if—never mind what happens to the President's program over the next 2 or 3 years as it wends its way through Congress—maybe there is something that could be done administratively to clean up all the——

Mr. WORTMAN. Secretary Califano shares the same concern that you have.

Mr. BROWN. Does he have anybody working on it?

Mr. WORTMAN. Yes.

Mr. BROWN. What kind of a task force?

Mr. WORTMAN. We have two efforts going. With the Inspector General we have a combined effort looking specifically at program integrity. And we have just launched an effort that will be led by the Associate Commissioner for Family Assistance on looking at the whole AFDC program.

Attached to my statement is a memo from the Secretary to the Commissioner that addresses some of the areas that he specifically wants us to look at.

Mr. BROWN. Is anybody reviewing—and I would commend this to you—the regulations and then spot checking and picking some people out in the field who would be willing to discuss the program and not think that if they criticized it, they were going to lose their jobs? Just talk to some of the people out there where they have to make those judgments. Pick some smalltown people, because they tend to know their clients, I think, a lot better than somebody in the metropolitan area who has 284 families to look after. And the number changes at the rate of 10 or 15 a week as they move out—but somebody who is going to stick with the family for awhile.

Ask them what the real impact is. Not the Washington judgment or the Chicago judgment, but the impact of the judgment out there in Podunk. Ask them what the real impact is of those programs at the program administration level—directly related to the client.

I think you'd be startled at some of their judgments.

Mr. HURWITZ. Congressman, we've tried to do that. And we have done it in several ways.

One, for some of the regulations—particularly those that are most complex and that relate to the most complex parts of the program—we've had public hearings—a whole series—to which we've invited anybody who was interested to come in and testify. Some caseworkers have come in and have told us what they think.

We also publish notice of regulations which have gotten, in one or two cases, several thousand responses from people who are interested in a particular regulation.

The Secretary has indicated a great concern about our clearing up and cleaning up the regulations, and we are trying and looking at specific ones—those that are most difficult.

But there is a problem, Congressman, particularly in a State like yours where it is locally administered. The regulations which we write don't go to the county worker. They never see those regulations. They go to the State. The State then has to rewrite those in some kind of form and promulgate those to the counties.

So what you really get is a regulation that is refined two or three times before it gets to the worker. It's no wonder that they get very complicated at that stage. Very often I think you will find that if you press the workers, what they think is a Federal reg is not a Federal reg at all. Now I don't know that that's true in all cases, but my own experience is that they very often say it's the Feds that do it because they simply don't know the process.

Mr. Brown. Let me just conclude by your not responding to whether it's the feds or isn't the feds. I don't think it makes any difference.

If you're writing initial or basic regulations that can be interpreted differently by each State, you're already in trouble.

That's an admission of some flaw someplace. Because if one State interprets them one way and another State interprets them in another, there's going to be plenty of work for the Inspector General to do just going through the regulations and trying to rationalize those so that two State administrators can't alternately interpret them.

Maybe instead of calling in the welfare worker, you should call in the State administrators and try to rationalize the Federal regulations.

Mr. Hurwitz. You've put your finger on the principal dilemma, Mr. Brown.

That is, if two administrators—or 54—can interpret it differently, as they do, then in order for that not to happen, you make the regulations fairly detailed.

What we find is that we get two criticisms from the States: Your regulations are too complicated and too complex or else you're not specific enough and you don't tell us what we can do and what we have to do.

We're always caught in that. We try to make them specific, as clearly stated as possible, and we do go through a process that does refine them. But then we always get questioned about whether we can make it more specific. We're always caught in that dilemma.

Mr. Brown. I'm sure that's true, and I'm sure that's a bureaucratic dilemma that as long as we have programs we will have difficulty with them.

But it seems to me that it does require continual effort, and I would have to say that I think the effort has been more directed at additional programs rather than making the programs we have successful.

I, for one, would like to go back to just a few programs that worked rather than a whole multiplicity of programs that cover all the sins of flesh they're heir to but which do not work.

Mr. Fountain. I guess all the efforts we're making to reduce paperwork on the Federal level still don't eliminate the paperwork that exists on the State and local levels, particularly if the State promulgates its own regulations and its own forms pursuant to those sent from Washington.

So maybe in this elimination of unnecessary paperwork, you can suggest to State and local people how they might do the same thing.

Apparently, that is a matter of great concern to everybody—not only the social workers—I have visited their offices. They just pick up the phone and say: This is what has to be filled out before we can even attempt to pass judgment on the eligibilty of the applicants.

I can see there's quite a problem.

Are there any other comments you gentlemen would like to make before we recess?

Mr. WORTMAN. No, sir.

I think this has been helpful to us, and I think the constructive criticism is helping in pointing directions that we should attack.

Mr. FOUNTAIN. Thank you very much.

We appreciate your coming; you have been extremely helpful.

I think our record will reflect some very valuable information brought to our attention this morning.

The subcommittee stands in recess until 9:30 a.m. tomorrow morning, October 5, when we will meet in this same room.

At that time, we will take testimony from representatives of the National Governors' Conference, the National Conference of State Legislatures, and the National Association of Counties.

[Whereupon, at 12:30 p.m., the subcommittee adjourned, to reconvene at 9:30 a.m., Wednesday, October 5, 1977.]

ADMINISTRATION OF THE AFDC PROGRAM

WEDNESDAY, OCTOBER 5, 1977

House of Representatives,
Intergovernmental Relations
and Human Resources Subcommittee
of the Committee on Government Operations,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:50 a.m., in room 2247, Rayburn House Office Building, Hon. L. H. Fountain (chairman of the subcommittee) presiding.

Present: Representatives L. H. Fountain and John W. Wydler.

Also present: Delphis C. Goldberg, professional staff member; Pamela H. Welch, secretary; and John Duncan, minority professional staff, Committee on Government Operations.

Mr. Fountain. The subcommittee will come to order.

The session this morning will conclude the subcommittee's oversight hearings on the aid to families with dependent children program. As in our previous sessions, we are interested in identifying and examining the fundamental administrative problems which the Government will have to face up to regardless of the specific legislation which may be enacted in response to the President's welfare reform proposals.

All of the public interest groups that represent State and local governments were invited to participate in this hearing, inasmuch as the AFDC program is either administered by the States or by their local governments—principally the counties—under State supervision. Consequently, States, as well as many of their local governments, have a financial and an administrative stake in this important program.

I regret to say that none of the interest groups representing the counties and cities have accepted the subcommittee's invitation to testify. However, the subcommittee has received a written statement from Phyllis Lamphere, president of the National League of Cities, which will be made a part of the record at the end of this hearing.

Our witnesses this morning are Acting Commissioner Carmen Shang of the New York State Department of Social Services, who is representing the National Governors' Conference, and Mr. Herbert Robbins, director of the Washington office of the Michigan State Legislature, who is appearing on behalf of the National Conference of State Legislatures.

Will you gentlemen please be seated at the witness table. I will ask Commissioner Shang to lead off with his statement, after which Mr. Robbins will present his statement. The subcommittee will then question both witnesses.

We are delighted to have you here. We appreciate your taking the time to come and participate in this hearing.

Please proceed Commissioner Shang.

STATEMENT OF CARMEN SHANG, ACTING COMMISSIONER, NEW YORK STATE DEPARTMENT OF SOCIAL SERVICES; ACCOMPANIED BY DAVID GASKELL, ASSOCIATE COMMISSIONER, DIVISION OF INCOME MAINTENANCE, NEW YORK STATE

Mr. SHANG. Thank you, Mr. Chairman.

I am Carmen Shang, acting commissioner of the New York State Department of Social Services. Governor Hugh Carey has asked me to appear today on behalf of the National Governors' Conference. A full copy of my testimony has been submitted to the subcommittee.

The Governor, as chairman of the Task Force on Welfare Reform for the National Governors' Conference has repeatedly pointed out that along with long-term welfare reform, short-term measures must be considered.

We appreciate the opportunity to present testimony to the subcommittee and are particularly pleased to note that among the items your subcommittee listed for this hearing is an inquiry as to what practical steps can be taken to "increase the efficiency, economy, and fairness of AFDC administration." We certainly will comment on that. But, first I will address the issue of quality control.

The issues around the appropriateness and effectiveness of HEW's quality control program can best be approached by pointing out the interest and concerns which States have in reducing their ineligibility rates. States try to reduce their error rates to tolerable limits not because of any expressed or implied threats of sanctions at the Federal level but rather because their obligation to taxpayers demands it. I must say that although we are committed to the overall concept of quality control, we have been far less enthusiastic about the methodologies HEW has used in prior years for both the basic operation of the ADC and MA quality control programs and in the exploitation of their value as management tools. We have made considerable progress in combating ineligibility despite well-intentioned but misguided regulatory maneuvers on the part of past administrations of HEW.

In New York State ineligibility in the ADC program is down to slightly over 6 percent. This is down from 12 percent in 1975 and about 17 percent in 1974. We are quite proud of this.

It has been clear to those within the welfare spectrum whether at the Federal, State, or local level that some major changes are needed in the present delivery, quality control, and error measurement systems. All three levels have contributed in their own unique way to the dysfunction of the system, and all should participate in a partnership geared to correcting the problems. The sessions between the new Coalition Quality Control Task Force and HEW have been very fruitful; however, there are still a number of improvements needed before the quality control systems can be judged as effective and efficient management tools.

From our perspective, we see the following as the major problems associated with the quality control program:

First, there is no coordination or linkage between and among the various quality control processes involving the programs of food stamps, aid to dependent children, medical assistance and general assistance. Policy decisions that are made at the Federal level are further fragmenting these programs, and State and local manpower resources are being wasted on disjointed and independent efforts. Instead of having a composite picture of the needs of the poor upon which to base policy decisions, we have several fragments.

For example, an AFDC case reviewed in the family assistance quality control program is found to be ineligible under the program regulations. This would imply that all recipients in the case are ineligible for any money payment, medicaid, food stamps, and the many social services programs, primarily day care, when, in fact, the case may be only technically ineligible due to the lack of WIN registration or the absence of one of the defined deprivation factors.

In another situation, the case may be ineligible for a cash grant but still eligible for medicaid, food stamps, and services. Ultimately, the various quality control programs must be integrated if we are to overcome these problems.

Second, there is too much diversity in the quality control programs. This is true not only across quality control lines but also within each program. There are major differences from State to State in the methods used for quality control reviews as well as the ground rules for making case decisions. We believe that more objective and finite criteria are needed to guide the decisionmaking process to assure that the results reported by States are consistent and uniform.

Three, the quality control process has become overly regimented and provides little flexibility for States to follow unexpected leads on the true location or cause of error or, for that matter, to accurately measure the impact of corrective actions. Although the magnitude of error changes from period to period, the types of findings are almost constant. What is needed are periodic breaks from the standard quality control regiment to allow for 3- or 6-month intervals that would permit different kinds of investigations or more intensive probes.

These might isolate the real location and source of problems within the State. We believe that the general trend data coming out of quality control would be augmented significantly if the present time spent on quality control were cut in half and the resulting available resources diverted to those more intensive efforts that are desperately needed by the States.

Four, the final major problem associated with quality control is one which is well on its way to being cured by the new administration, but I believe it is well worth repeating since there is a lesson to be learned in all Federal and State relationships. The problem has been the indifference that HEW has shown in the past to input from the States on a variety of topics involving the formation of the various quality control programs and the ultimate use of the data that these programs generate.

On this latter point, I would like to present an illustration that is probably familiar to all of you. This involves the arbitrary tolerances and penalties that were initially associated with the quality control results in the ADC program. New York and other States maintained that our normal share of error-related losses coupled with our responsibility and sensitivity to taxpayer concerns represented sufficient motivation to improve.

Our pleas for positive incentives went unheeded—and as a consequence, HEW embarked upon a program designed to force New York and other States into setting up short-lived firefighting actions geared solely to penalty avoidance. Despite our successes in reducing the error rates to tolerable limits, I believe that significant amounts of taxpayer dollars could have been better spent on actions that would have been more permanent as opposed to the stopgap efforts that New York was pressed into at the outset of quality control.

Our position that we did not need a negative stimulus has been borne out by our performance in ADC error reduction since the courts removed the threat of sanctions. The courts barred the HEW's threat of penalties and sanctions. Still our New York statewide ineligibility rate now stands at 6.2 percent.

Many of you may not be aware that New York State had already commenced quality control work in medicaid at the time a nationwide program was considered. I believe that the initiation of the medicaid quality control system is another illustration where the input of the States should have been heeded. We volunteered 16 man-years of effort to the development of this quality control system only to learn that our experience and advice in areas which involved structuring of the process were falling on deaf ears. The quality control program which evolved was geared primarily to telling Congress how many dollars were lost. It did not give management very much insight into either the cause of the errors or the true month-to-month picture of error rates.

We are now working with the new administration in Washington to reorient medicaid quality control to serve as a management tool, but nothing can compensate for the fact that 2 years and a significant amount of energy and resources have been squandered.

I could stand here for hours listing important flaws in quality control that prevent it from reaching its full measure as a management tool. Rather, I choose to close on a positive note in this issue and request your support of the States and the new administration in making quality control a partnership rather than a Federal program of penalties and sanctions.

Your committee has asked for our views on employment of the ADC population. I will turn to this issue now.

As for employment of ADC population, the question is asked whether or not the ADC population can be moved into employment and if so, how. In response to whether or not this group can be employed, the answer is a qualfied yes. Employment is not a realistic goal for all ADC"s, but then neither is it realistic to assume that all youth, all elderly, all physicists, or all teachers who wish to work can be placed.

The National Governors' Conference has already expressed its views on this, which, in summary, are that persons who are able to work should have the opportunity to do so; that a nationally administered work program is impractical because economic conditions, work force composition, job and training opportunities, et cetera, are not uniform throughout the country, and that therefore a State-administered program is necessary to assure that individuals expected to work do not remain idle.

Although each State would have to develop an approvable plan for assuring the recipients expected to work fulfill their responsibility to do so, our proposal allows for States to modify the mandated work requirements for certain hard-to-employ client groups in periods of high unemployment.

The State plans would provide for testing and skills assessment and an individual employability plan for each client. A variety of placement methods are described as State options including self-placement, the use of existing agencies, employability development programs such as on-the-job training, remedial education, instruction in English as a second language, and skill training.

For those individuals who are unable to find or maintain private sector employment, alternative, short-term measures are proposed. These include unpaid community service assignments and paid community service either in the form of supported work or employment through public benefit corporations.

All of these are good employment possibilities and as a matter of record do not differ significantly from any of the components of welfare reform, but all of these concepts take time to develop and implement. Our problems regarding client employability are urgent. They need to be addressed now. I should, therefore, like to share with you proposals which I believe will foster client independence and better integrate recipients into the private sector, at least until such time as massive reform can be accomplished.

The first proposal is a program to teach clients the basics of successful job hunting, to heighten awareness of possible employment opportunities so that instead of depending exclusively upon the one or two traditional manpower agencies that have always served the poor, participants are taught to think and act independently, to realize that a new store opening not only means jobs in the store but may also mean jobs in nearby restaurants and parking lots as well; to recall personal acquaintances who may be able to assist in finding a job; to consider asking employed friends if there are openings where they work. Professionals in many fields have become painfully aware of the need for this type of formal training in job search techniques as they are displaced in their middle career years, when a return to the college placement office seems inapproriate and employment agencies cannot seem to affect a proper match soon enough. As a result of this need, numerous profit-making organizations have been formed to teach individuals how to prepare a résumé and how to conduct a job search.

This has never been done for public assistance recipients, despite evidence which indicates that as little as 20 percent of available job opportunities ever reach the "open market," with the remainder being filled by persons appearing in the right place at the right time.

It is clear that the existing public manpower agencies, CETA and the State employment services, simply cannot place the millions of unemployed ADC recipients.

The second proposal is increased funding for sheltered workshops so that inexperienced public assistance recipients or those who are returning to the labor market after several years absence can be accommodated. Counseling combined with work sampling has proven to be a highly successful method of evaluating the type of work for which disabled individuals have the best chances for success.

Work sampling for nondisabled has also been used successfully by private vocational guidance agencies but has not been attempted to any significant degree for nondisabled public assistance recipients. The facilities exist and are staffed with a core of experienced vocational evaluators. Changing regulations and enlarging the program to permit nondisabled individuals to be assigned to these workshops for appropriate periods of time could be done quickly and at relatively little expense. The immediate result would be jobseekers who know what type work they are seeking and what skills they have to offer. The image they can present to a prospective employer is that of a confident, directed individual, and one who has some recent experience and earnings. The ultimate result will be a reduction in the number of failures which plague recipients and destroy the motivation to try again.

Finally, a modification of fair employment practices regulations to make public assistance recipients a protected population, countable on reports mandated by the Federal Government for Government contractors and firms producing goods shipped in interstate commerce.

This would in no way harm the present fair employment program because included in the ADC population are large numbers of minorities, women, handicapped, Spanish-surnamed individuals, et cetera. It would, however, cause employers to set hiring goals and improve recruitment practices and, in general, would put more emphasis on private sector hiring where the majority of jobs still are. This proposal would not create jobs; it would only assure that recipients are given full consideration for existing jobs and are not rejected merely because an employer has a low opinion of those on public assistance. The program can be shown to be cost effective in terms of local dollars saved as well as State and Federal dollars, and since existing procedures would remain essentially unchanged, the industrial community should raise few objections.

Despite my optimism about the ability of ADC recipients to work and my staff's optimism about the ability of social agencies to teach clients how to be successful in finding work, I am also aware of the unfortunate fact that the number of jobs is rapidly diminishing in New York and in many other urban industrial States as well. In New York City alone, since 1969, 750,000 jobs have vanished, and a large number of these were in the lower skilled occupations, where persons living at public asistance levels have traditionally worked.

Is it possible or desirable for public employment to expand to accommodate such persons? This is an issue which has broad economic and social ramifications and will, I am confident, be debated in the context of the administration's Better Jobs and Income Act.

As for improved administration in the ADC program, in April of this year, the Congressional Research Service presented a report to your committee entitled "Administration of the AFDC Program." This excellent, exhaustive study described in detail most if not all of the problems existing in current administration of AFDC programs. I would like today to focus on five of them.

These are: (a) Lack of uniformity of administration; (b) differences in benefits available between States; (c) poor interface between multiple agencies supervising associated programs; (d) lack of interagency cooperation; and (e) a counterproductive policy on vendor restricted payments.

The lack of a uniformly administered program has been a source of confusion and irritation between the States. The Federal requirement is that a State's ADC plan must, as stated:

> Either provide for the establishment or designation of a single State agency to administer the plan, or provide for the establishment or designation of a single State agency to supervise the administration of the plan.

Given the Federal requirements, there are 18 States, including New York State, in which the State agency supervises a locally administered program.

In New York State the local authority, that is the county, is in a position to make certain critical judgments in the case determination process; that is, the actual designation as to whether there is financial and categorical eligibility for ADC. In New York State, the local authority also financially contributes to the assistance payment. Of the 18 States which have local administration, 11 require local contributions in ADC payments. In the remaining States, there is direct State administration of the program.

A trivial but confusing consequence of this lack of uniformity is the difference in nomenclature. For example, in New York State, we have the department of social services, California is the department of benefit payments, New Jersey is the department of institutions and agencies, Ohio is the department of public welfare.

Let us now look at another administrative inconsistency between the States. There is no uniform ADC application process. Federal regulations promulgated in 1973 require only: A written application signed under penalty of perjury; a procedure to insure that reports of changes in circumstances affecting eligibility for or amount of assistance to be promptly reported; and inclusion in the case file of facts supporting the decision of eligibility.

Thus, there is a great latitude left to the States in the entire application process whereby initial and continuing ADC eligibility is determined. The Congressional Research Service report states it well as follows:

> . . . The amount of information required from the applicant; the extent of supporting documentation; the matters for which independent verification is sought; as well as speed and accuracy of the determination process vary widely from State to State. This diversity is due both to differences in substantive law and to differing philosophies of administration. Complexity in application is inherent in laws that place a high emphasis on varying payment to meet the individual needs of clients; complexity also derives from administrative approaches that manifest concern with accuracy of determination. The key question is whether rigorous application procedures lead to accuracy of determination and how to balance this goal with the need for a prompt response to the client.

We are all aware of the vast differences in benefit levels from State to State. Federal regulations require States to establish a statewide standard of need which is uniformly applied and a standard which reflects cost-of-living increases to 1969. In developing statewide standards, many States have adopted a flat grant as a way of reducing errors. In New York State we have a flat grant for basic needs, exclusive of shelter and fuel expenses. Other States have a total flat grant, while still others base the payment on special needs and circumstances of the family.

Within the States there is a difference in who receives the benefits provided under title IV–A of the Social Security Act. All States provide some level of benefits to families with dependent children who are deprived of parental support and care by reason of death, absence, or incapacity of a parent. However, IV–A also provides authority, at State's option, to provide ADC when the father is unemployed. Such assistance is granted under the ADC–U program. Twenty-nine States have an ADC–U program; the others do not.

Another State option program is the EAF program. Under EAF, emergency assistance may be granted to families with children during one 30-day period in 12 months. Such assistance must result from an unexpected situation which threatens the family. Twenty-six States have such a program; the others do not.

New York State is one State that has opted to provide assistance under ADC–U as well as EAF. Even with provisions of assistance under the full complement of IV–A programs, a needy population still exists. This group is single individuals, childless couples and intact families who do not meet ADC categorical requirements or SSI eligibility criteria. Thus, New York State, like 42 other States, has instituted a general assistance program for those who do not qualify under Federal programs. In New York State we have a recurring general assistance—Home Relief, and an emergency program—EEA—to meet emergency needs of SSI recipients. General assistance is costly to the State as well as the localities who share in the payment. It would seem that a recipient should be able to receive the same type of public assistance benefits regardless of the State of residence. A recipient should not have to move from State to State in order to obtain assistance. Assistance in the United States should not be an accident of geographic location.

Another major administrative problem is the poor program interface between agencies. Most ADC clients receive food stamps. DHEW is responsible for the ADC program. USDA, on the other hand, has responsibility for the food stamp program. Unfortunately, the rules of ADC and food stamps are not the same. For example, a given resource may be counted in determining eligibility for ADC and disregarded in determining food stamp eligibility.

A component of the ADC program is the work incentive program, WIN. The Department of Labor has responsibility for the manpower component of the WIN program. Because of strict Federal funding limitations in staffing and running the WIN program, there have been difficulties in coordinating DSS–DOL efforts on the State and local level. For examole, HEW regulations and WIN program regulations often conflict. WIN services requirements—Federal regulations—do not mesh with title XX requirements. In region II which is New York, New Jersey, Puerto Rico, and the Virgin Islands, HEW has exerted no discernible influence on the administration of the WIN program. Social Services reporting requirement and WIN program reporting are not coordinated.

The administrative curiosities which I have described thus far affect all States. In addition to these, each State has problems peculiar to it or problems which it shares with several but not all States. Since I know New York State best, I would like to describe two issues in New York State as examples of problems that current practices create.

The first illustrates the lack of interagency cooperation. The second focuses on a counterproductive constraint.

One of the best checks on client eligibility is to verify recipients' current earnings. The most efficent way to do this is to match client income information against employment files. Now, the value of matching welfare client information against payrolls and the public assistance file has been proven time and time again. Because of the recognized value of obtaining reliable current employment data, the New York State Department of Social Services has consistently sought to obtain access to the employment file and income data available in the Social Security Administration system. However, we have repeatedly been denied access to the use of this data in the eligibility process.

Lacking the ability to do a centralized income match, New York State has promoted the matching of local social services districts' recipient files against public payrolls, unemployment benefits, neighboring welfare roles and any other sizable automated data bases available to individual districts. Among these matches completed at the local level, we note a significant volume of case closings and rebudgeting resulting from identification of unreported income. For example, New York City is currently matching its total caseload files against New York City and New York State public payrolls twice each year.

For the January 1977 match, this resulted in the closing of nearly 800 cases and the rebudgeting of over 500 additional cases. Admittedly, these selected payroll matches cover only a small portion of jobs commonly available to low-income workers. Nonetheless, the results are more than ample to demonstrate that significant reductions in erroneous public assistance payments would result from a match with a master file such as that maintained by SSA.

It is incumbent upon me to point out that the Social Security Administration gives State welfare departments access to earnings and self-employment income records for quality control studies while denying the eligibility worker this information when making the eligibility determination. Thus, SSA helps us to determine the existence of errors but does not offer assistance in our efforts to prevent such errors.

Finally, I want to talk about the arbitrary 10-percent limitation on vendor restricted payments to ADC recipients.

Why a percentage limitation, let alone an arbitrarily designated amount such as 10 percent, was established is unfathomable. It is reasonable to assume that the most conservative of States or localities would avoid using restricted payments unless absolutely necessary to the welfare of the child because of the relative administrative complexity of a restricted payment. After all, the ADC program is a children's program. These children depend on the adults with whom the statute specifies they must live for their care and the judicious use of the assistance payment. Placing shackles on a State's ability to choose alternative methods of payment to assure the children's welfare would appear incredibly shortsighted in view of the stated objectives of the ADC program.

In other Federal programs, restrictions or limitations on payments have been governed by circumstances and/or recipients' choice rather than on an established percentage. For example:

In the AABD program, title XVI, there was full Federal participation in indirect payments made to a protective payee when a physical and/or mental condition rendered the recipient incapable of managing his own fund.

Under the former title XVI, the shelter payment for all AABD recipients residing in a public housing authority could be made by voucher payments to the housing authority.

In the ADC foster care program, title IV–A, third-party payments, or protective payments, are made in all cases with full Federal participation.

Payments made to meet emergency needs of families under the emergency assistance to families program, title IV–A, can be made as money payments, vendor payments, or payments in kind.

In the WIN, title IV–A, and child support enforcement, title IV–D, programs, when the caretaker relative is sanctioned out of the case for failure to comply with program requirements, the assistance payment for the children is made as a protective payment.

U.S. Department of Agriculture regulations permit a deduction of the food stamp purchase requirement from the monthly grant for recipients requesting same.

OASDI and/or SSI monthly payments can be deposited directly in a bank, if the recipient so elects.

In all these programs, full Federal financial participation was or is received even though payment is not made directly to the recipient. The 10-percent limitation on ADC payments is the exception in Federal programs rather than the rule.

This artificial limitation has resulted in a serious situation in our State. Landlords in New York State, particularly New York City, are demanding direct payment of rent as a condition of renting to welfare recipients. This situation results from nonpayment by recipients and is further exacerbated by clients who move owing arrearages which the landlord is unable to collect.

In the absence of rent income, landlords are not providing maintenance and eventually are abandoning the buildings, thereby reducing the already limited number of units available to welfare recipients. In New York City, there has been a net decrease in housing stock over the past few years with approximately 30,000 units lost per year. A number of landlords have blamed reduced revenues on welfare clients who move out owing them large sums of rent. Landlords have insisted on rent restriction as a condition of renting to public assistance recipients.

Our State legislature enacted a bill which calls for direct payments of rent to landlords where a public assistance tenant has failed to meet his full rent payment. In New York City in 1975, an average of 4,263 recipients per month are added to the list of recipients who did not meet their rent obligations and required duplicate payments of $1,093,870 per month to prevent their eviction.

Utility companies and fuel dealers are also demanding direct payments. This results from the current high cost of electricity and an increase in nonpayment of utility bills by all segments of the population. In 1975, an average of 2,868 recipients per month did not meet their utility bills and required duplicate payments of $451,819 per month to prevent utility disconnection or to restore already shutoff utilities in New York City.

Indeed, some recipients are not requesting that direct payments be made. With the reduced financial resources there is a tendency to default on the obligations involving large monthly expenditures such as rent and utilities rather than cut back on daily or weekly expenditures such as food and incidental needs. The use of a two-party payment for large monthly obligations serves to assist the family in setting aside funds to meet fixed monthly obligations.

In today's society, voluntary withholding is a generally acceptable money management tool. There is no logic in prohibiting its extension to the public assistant client.

We in New York State have continually urged the total elimination of the 10-percent limitation on vendor restricted payments retroactive to January 1, 1968. As an alternative to any limitation we proposed that the States be allowed to develop State plan material specifying those situations/circumstances when vendor restrictive payments would be allowed with full Federal participation. In this way, the State would systematically be able to provide adequate guidance to welfare recipients on managing their funds. Thus, if the recipients show they cannot or if economic conditions are such that they are unable to handle the situation, then, and only then, would they be placed on a vendor payment basis. The use of this type payment would be monitored through the quality control process and/or audit process.

H.R. 7200 provides for removal of the provision denying Federal matching funds for payments over the 10-percent limitation for the period January 1, 1968, to April 1, 1977, and for lifting the restriction from 10 percent to 20 percent. It is absolutely essential that States not be fiscally penalized for vendor payments made in the past in excess of 10 percent.

While I would prefer the lifting of the restriction altogether, I consider the increase to 20 percent a step in the right direction. It will be especially helpful in New York City.

I would like to conclude my remarks by presenting the recommendations of the National Governors' Conference on the broader issue of welfare reform.

The National Governors' Conference has called for a national welfare system which would provide fiscal relief to the States while providing a coherent assistance program. The recommendations are as follows:

A unified income maintenance program for all eligible persons under an established minimum income level;

A national minimum payment standard with State flexibility rather than systematic regional variations; and

A work stimulation and training requirement to eliminate the individual's dependence on the income maintenance system by increasing his or her ability to obtain and hold unsubsidized employment.

An incentive to self-sufficiency through a simple work expense deduction and a realistic benefit rate reduction;

Coordination of other related programs such as medicaid, social security, unemployment insurance.

A reformed income maintenance program supervised by the Federal Government and administered by the State government.

Welfare reform is admittedly a long-term national priority. What about today? Unless something is done, and done quickly, States such as New York State will have to choose between insolvency and insensitivity. Current fiscal situations have severely strained the ability of the States to maintain current maintenance levels. Without relief, the alternative is to practice insensitivity—that is, the denial of minimum requirements of life to our neediest citizens.

While restructuring of the entire IM system is a national priority, there are short term critical needs which can be met immediately. Many of these needs can be met by changes in the administration and requirements of the existing programs.

We urge your continued support when the Senate has finally acted on H.R. 7200.

Thank you very much.

Mr. Chairman, you mentioned at the outset that you would wait until both persons had testified. Is that right?

Mr. FOUNTAIN. Yes.

Mr. SHANG. I wonder if it would be possible to separate our testimony if you have questions at this time.

Mr. FOUNTAIN. Yes. We can do that. I know that you are planning to take an early flight back to Albany.

We thank you very much for a thought-provoking statement. I will yield to Mr. Wydler at this point.

Mr. WYDLER. Mr. Shang, you were rather hard on the past policies of HEW relating to penalties that they imposed on States that did not do something about the error problem.

If you analyze it, you started your statement by explaining what a good job you were doing and explaining how you took a 17-percent error record and you brought it down to 6 percent.

That was done under the whip—if you want to call it that—of this program which told you that you had better do something about this intolerable situation and get your house in order, or else.

That may be rough, but actually when you analyze it, it got results, didn't it?

Mr. SHANG. I would not want to say that the threat of substantial penalties and sanctions did not have something to do—

Mr. WYDLER. Why didn't you do it before?

Mr. SHANG. I think we did.

Mr. WYDLER. Seventeen percent.

Mr. SHANG. I have read previous testimony before the subcommittee and I did not want to be repetitive. But, it has been pointed out that some of the things that cause ineligibility rates to increase substantially are the simplified declaration system and the lack of requirement that eligibility be completely verified.

Penalties and sanctions are to a large degree responsible for our successes.

Mr. WYDLER. You know that we will not be able to separate out the exact cause of the improvement. Everybody will have his own idea.

But I am just saying, just look at it objectively. They put in a rough program, but it seems to have resulted in a great reduction of errors that are being made.

Mr. SHANG. Let me say that we believe that the reduction in the error rates can best be handled by a positive program.

The fact is manifested in what the legislature did in our State last year whereby to induce local districts and counties to reduce their error rates, it provided for increased moneys and increased reimbursements for those counties that would do so.

Mr. WYDLER. That is the way to do it.

Mr. SHANG. That is positive. That's what we like to see.

Mr. WYDLER. You may be right.

I tend to believe personally that things such as quality control depend on what the public wants more than anything else. I am not talking really about the part of the public that is receiving the benefit but the public in general.

I can remember very well when New York State decided—and I think it was in the mid-1960's or even before that—to put on a drive to eliminate all forms. You would eliminate any requirements for any verification of anything.

If you wanted welfare you would walk in and say that you needed it. They would let you sign and they would give you the money. That was really pushed, seriously. They wanted to know why make people fill out forms and so on.

That idea at that time had a large public acceptability.

Obviously, if you have a system like that, you are asking for a lot of mistakes to be made. You know that.

Of course, the public mood has changed on this. You are reflecting that now and you are trying to operate on a different basis.

Sometimes I think you blame the system for doing exactly what we ask it to do, then we do not like the results that come out of it in the end.

I have one piece of good news for you. I think it is good news. I believe—if we can believe what we were told here yesterday by the Department of HEW and Social Security—that they will indeed make available to you the data that you want and that you need.

If I am not mistaken, Mr. Chairman, they made that public promise and whatever administrative problems they had regarding that are solved and they will give you all the information that you have been seeking so that you can do these checks that you want to do.

Mr. FOUNTAIN. That would not violate social security regulations.

Mr. SHANG. That is encouraging.

Mr. WYDLER. I would urge you to make up for lost time and do not give them a chance to change their minds. [Laughter.]

Mr. FOUNTAIN. You might want to call Mr. Don Wortman, the Deputy Commissioner of the Social Security Administration, as soon as you can to get an early access to him.

Mr. WYDLER. Thank you, Mr. Chairman.

Mr. FOUNTAIN. Mr. Shang, we are going to have to recess in a moment to go to the floor of the House.

You made reference to making considerable progress in combating ineligibility despite "well-intentioned but misguided regulatory maneuvers on the part of past administrations of HEW." I think Mr. Wydler made reference to that.

Does that criticism extend to areas other than the quality control requirements? If so, would you give us some examples?

Mr. SHANG. I do not know if I could give you examples or if I would want to give you examples off the top of my head.

The point I was trying to make, Mr. Chairman, is mainly with the quality control program. In our testimony, we pointed out what was happening when the Federal Government was putting up this new medical assistance quality control program. They were taking essentially the same approach that they use in other programs—their quality control programs. I understand that it has changed now. That was to go straightforward down the line and come up with a process that would point out how much money we are wasting and how much error there is in the program, and do that regularly and repeatedly on a regimented basis and really not address the real problem. It would not give us an opportunity to address the real problems that are the causes of those error rates and high ineligibility rates.

DHEW would not listen to inputs from the States on the formation of the quality control program, and we would like the program to permit itself to be used as a management tool and an effective tool.

Now I understand they are listening.

There are other examples I can recall, as Mr. Wydler made reference to, but I can remember several years ago in the separation of service problem where New York State besieged HEW asking the separation of services be done away with because of the problems we were having with it. We did not get very far for a number of years. Eventually they did do away with it.

I think I would just like to say that under this new administration my own experience is that things are much better. The cooperation between the States and the Federal Government is very good at this point. I only hope that it lasts.

Mr. FOUNTAIN. As you point out, problems of coordination do result when the various Federal welfare programs have separate quality control processes involving different rules and regulations and procedures.

There is no question that these program differences exist and complicate both program management and equitable treatment of families. This unfortunately, I think, is in large measure a byproduct of the specialized committee jurisdiction in the Congress where these programs have developed and also the administration of the programs by more than one Federal agency.

It would appear that the President's welfare proposal is designed to correct the lack of coordination, at least for AFDC and the food stamp program. That proposal, however, does not address the medical assistance program.

Among the programs lacking quality control coordination, you mentioned general assistance, in which there is no Federal involvement. Why can't New York and other States use the AFDC quality control system for their general assistance program?

Mr. SHANG. We do.

Mr. FOUNTAIN. We will have to excuse ourselves to go vote on the floor.

The subcommittee will stand in recess.

[Recess taken.]

Mr. FOUNTAIN. The subcommittee will come to order.

Mr. Shang, you stated that there is too much diversity in quality control systems even within each program, with major differences from State to State in the methods used for such reviews as well as the rules for making case decisions.

Isn't the methodology standardized by the Federal Government for AFDC quality control reviews?

Mr. SHANG. Yes, I believe it is.

Do you mean among all the States?

Mr. FOUNTAIN. Yes.

Mr. SHANG. I believe that is true, yes.

Mr. GASKELL. I am David Gaskell, associate commissioner for the State of New York.

It is supposed to be standardized but we keep learning things which indicate that that is not necessarily so. For example, the city of New York has just done a review of four other cities to see what they could learn from these cities.

One of the things they picked up, for example, in the city of Chicago, was that in determining if a father was absent from a home, it required four pieces of information to ascertain that the father was, in fact, not in the home.

In New York we require only two pieces of data. It is much easier to obtain two pieces of information in ascertaining if the father is not in the home than four pieces. So, if we get our two pieces and find that the father is in fact in the home, then the case is ruled ineligible and in Chicago that case would not be ruled ineligible.

Dr. GOLDBERG. Are you saying that the quality control system is standardized except that it permits State discretion as to how it is to be implemented and the extent to which the checks must be made?

Mr. GASKELL. I don't know in Chicago. I can't tell you whether that is State discretion. We learned that it was the practice. I can't tell you if that is a State of Illinois decision with HEW concurrence. I am not sure how it came about. I can only report that that is the practice.

Dr. GOLDBERG. That seems odd because it would seem obvious that one could not get a reliable comparison of the error rates established for two jurisdictions if the reviewers are not looking at precisely the same kinds of things.

Mr. GASKELL. That is exactly what I am suggesting—that the possibility may exist.

Dr. GOLDBERG. We will follow upon that.

Mr. FOUNTAIN. Would you describe how the State-initiated investigations which you advocate as a break from the standard quality control regimen would differ from the existing review approach and coverage?

Mr. SHANG. Yes. The point that we are trying to make there is this. When you have a requirement that is followed absolutely—that is, that you do a quality control review every 6 months by saying that you must do it and submit your reports and it is an ongoing process—you never have an opportunity to analyze the result to find out what the causes of your errors really are. Furthermore, you do not have the opportunity because of staff limitations and money limitations to really devote the time to correct and to put enough time into correcting the errors that you are turning up. You are constantly looking for errors. The root cause is not addressed.

Mr. Fountain I wonder if you could tell us whether or not this position of the National Governors' Conference has been communicated to HEW and with what result.

Mr. Shang. I have to say I do not know if the conference has communicated this position to HEW.

Mr. Fountain. You made reference to the desirability of State-administered job and training programs, rather than a national administered program, because of different conditions around the country. I think it is a recognizd fact that there are differences.

What is the National Governors' Conference position on locally administered work programs? Should the role of the State be any different than is presently the case under the CETA title VI program?

Mr. Shang. As a result of the welfare reform proposal and the jobs program aspect, the Governors' Conference is still analyzing, I think, what its position would be on local and State job programs and CETA vis-a-vis the proposal.

The last that I knew they had not come up with a specific, firm position on that. I could be corrected on that but my last recollection, which is several weeks ago, is that they did favor the State administration of the program of the jobs component, and I think they were leaning toward it being done through the CETA components or some variation of that. I could stand corrected though.

Mr. Fountain. In connection with your statement on page 11 that welfare recipients are sometimes not given full consideration for existing jobs because employers may have a low opinion of those on public assistance, I came across an AP story in the August 10, 1977, Sioux City Journal titled "Won't Hire ADC's." That item reads as follows, I think it might be of interest to you.

> A report on an experimental program in two eastern Iowa counties says that many local government officials will not hire welfare recipients, even if it costs them nothing.
>
> Of 89 local governments asked to hire persons receiving aid to dependent children benefits at no expense to them, only 11 did so.
>
> The program was begun in Dubuque and Jackson Counties under a $260,000 grant approved by the legislature last year.
>
> The State offered to pay about $8,000 a year to the recipients taking the jobs—enough to allow them to live without welfare.
>
> But Kirsten Patterson, of the Iowa Job Services Office in Dubuque, said the bias of many local government officials against welfare recipients made it hard to place them in jobs.
>
> She said many local governments turned her down citing traditional stereotypes of welfare recipients as lazy and not deserving of trust.
>
> In her report, Mrs. Patterson said the excuses included beliefs that welfare recipients are "slow workers," irresponsible, in need of constant supervision, sloppily dressed, from "bad families" and undisciplined.
>
> In all, she said she was able to fill only 21 of the 60 6-month jobs the $260,000 would have created.

So, it would certainly appear that bias against welfare recipients does exist in the public sector as well as in private employment.

Have you observed any discrimination of this kind on the part of public agencies in your State?

Mr. Shang. In hiring practices, no. We have not.

Mr. Fountain. State or local.

Mr. Shang. Discriminating against the hiring of public assistance people?

Mr. Fountain. Yes.

Mr. Shang. No. As a matter of fact some of our State job programs that we have administered over the years have had inducements for public agencies to hire recipients and give them a preference. I don't know how much the inducement was responsible for it, but the programs have had some measure of success.

One of the problems in referring to the article you read and to our own program efforts is, I think, the welfare recipient getting out of the stream of things—getting out of the employment attitude just by not being physically in or around employment situations. I think our experience in the public agencies has been that when we do hire welfare recipients, it takes some time to turn that around to get them in an employment mood again.

Mr. Fountain. With that situation existing, there could be a tendency in some areas, if not in yours, to discourage both local and State governments from giving them jobs. Is that right?

Mr. Shang. That is possible.

Mr. Fountain. This is an unusual situation where jobs were made available at no expense to the 89 local governments and only 11 agreed to accept them. Maybe that is a glaring exception to what normally is found. Yet, I can easily understand——

Mr. Shang. You are aware I think, Mr. Chairman, that in New York State for some years now we have had a work relief program for recipients where people are required, actually, to work for public agencies in public service jobs. This gives them a chance to work off their grant at minimum wage levels.

Mr. Fountain. I don't hear much about that taking place down my way. We have the program, but I am fearful that employable welfare recipients are not being placed in jobs to any large extent.

Mr. Shang. Recently the State legislature passed a new work bill for employable recipients, home relief recipients, under which instead of having home relief persons work off their grants, we would require a 3-day work period from them. The courts have prevented us from doing that.

Mr. Fountain. You stated on page 16 that it would seem that recipients should be able to receive the same type of public assistance benefits regardless of the State of their residence.

Let me ask you this. Would you favor paying the same level of benefits in Mississippi, for example, as in New York?

Mr. Shang. No. There is a distinction. You have to be careful. The distinction is this.

We are not in favor, necessarily, of completely uniform payment levels. We recognize that there are differences among regions and States and within States of the amount of money that is needed. The standard of living differs and the amount of money that is needed to subsist differs.

What we are talking about here is that we think that there should be uniformity of program coverage and that all the States should have the same program so that when, in an intact family with children, the mother or father becomes unemployed, if one State provides federally reimbursable assistance to that family because of unemployment then another State should also have that.

If one State provides for emergency needs, we think other States should too.

Mr. FOUNTAIN. Would you favor making some adjustment for differences in living costs?

Mr. SHANG. Among States?

Mr. FOUNTAIN. Yes.

Mr. SHANG. Definitely.

Mr. FOUNTAIN. In asking this question I recognize that benefit levels today vary very much more than we can justify by geographical differences in prices. Apparently they are related more to customary living standards for low-income people in a given State or community.

For how long a period has New York been making vendor payments to AFDC landlords in excess of the permissible 10-percent limitation; and when did HEW first threaten to withhold Federal matching funds for these excess vendor payments?

Mr. SHANG. Of course, reserving all of my rights to dispute findings that we have in fact exceeded the 10-percent limitation, I would say this. The problem does go back to about 1968. The problem is essentially one located in New York City. It is an enormous problem.

Mr. FOUNTAIN. When did HEW first threaten to withhold?

Mr. SHANG. That goes back to about 1973 or 1974.

Mr. FOUNTAIN. Why did New York first not seek a change in the law before 1976?

Mr. SHANG. We had been seeking a change in that law before 1976. We have done it—I cannot say exactly when, but we have sought changes for some time.

Mr. FOUNTAIN. Mr. Duncan?

Mr. DUNCAN. I have one question and I would like to get your opinion, Mr. Shang.

We are talking a good deal these days about trying to get people off welfare and into work. I wanted to ask you this. Are there jobs in the private sector in New York for these people? If there are not, are we really talking now about public service employment?

Could you expand a bit on what you see that employment looking like?

Mr. SHANG. Of course, with the economy being like it is, I would be hard put to say that there are large numbers of jobs available in the private sector. That is for anybody.

Mr. DUNCAN. Yes.

Mr. SHANG. But I think that to the extent that there are jobs available generally the same opportunities exist, as a general role. The public assistance recipients should have the same opportunities to get into the private sector as anyone else.

I think what we are talking about is the combination of inducement to persons to go into the private sector through incentives, fiscal incentives, including what we would favor—that is the earned tax credit. At the same time we would favor the continuation of the expansion of the community service jobs program. I think that would be our position for the time.

Mr. DUNCAN. Let me follow up.

One hears a lot in the literature about the content of these jobs and we all know when we look at jobs that jobs do a lot more than simply bring in an income. They are probably the most important status-determining component in our society. I think that we have to, when we talk about providing jobs for people, look at the status which it provides for the person.

One of the problems that continues to arise is that public service jobs, if they are to provide status, usually are jobs that are being performed in one way or another by one kind of institution or another in our society, and that when we attempt to provide these jobs in the public service framework we find ourselves running up against or undercutting these institutions. I am sure we all know what they are. They range from private institutions which do all kinds of things from insulating homes to unions.

I guess one of the problems I have is trying to see how one provides status to jobs so that when a person takes a public sector job, it indeed gives him the confidence in himself and provides the stability that he needs at the same time without finding ourselves up against this logjam of undercutting institutions that already exist.

I would appreciate your comments on that. There is no answer to it. It is an issue. It is a dilemma, but I think we need to have the thoughts of people like you on just this very kind of problem.

Mr. Shang. One of the programs that I referred to earlier in New York State was called the work relief employment program—WREP—which was essentially a public service jobs program. You are absolutely correct. One of the biggest problems we had was with the unions—their position being that we were supplanting taking over their jobs and forcing the union people onto welfare because we were taking up job slots and things like that. But I think in that one area we had a lot of problems with our program.

However, in that one area we satisfactorily worked out things with the unions. We did it by promising that so many or a certain portion of the welfare population would be unionized or covered by union benefits and subject to union rules. We accommodated the pay scales to the extent that we could so that pay scales would be comparable.

We did go a long way toward solving the problems with the unions whereas at the outset it was hardcore resistance.

Mr. Duncan. I wonder if you would care to speculate on this? Speculation is a risky business so you might decline and I would understand if you did.

I would like your comments, nonetheless.

The welfare reform proposals that are now coming out of the administration, of course, envision a public service job component basically at the minimum wage or slightly above. Based on your experience with this in this one program you were just talking about, do you foresee that we may really have to face the hard fact that if we cannot move people out of these public sector jobs into the private sector, then we are really going to have to face the fact that these wages are going to have to move up? Would you care to comment on that based on your experience?

Mr. Shang. No.

Mr. Duncan. I certainly understand.

Mr. Chairman, I have no more questions.

Mr. Fountain. I understand, Mr. Shang, that you have to catch a plane so you do not have much time left.

We thank you very much for coming down and giving us not only your statement but your frank responses to our questions. You have been very helpful.

Our next witness is Mr. Herbert Robbins, the director of the Washington office of the Michigan State Legislature. We will be glad to hear from you at this time.

STATEMENT OF HERBERT A. ROBBINS, DIRECTOR, WASHINGTON OFFICE OF THE MICHIGAN STATE LEGISLATURE

Mr. Robbins. Thank you, Mr. Chairman and members of the subcommittee.

My name is Herbert A. Robbins. I am the director of the Washington office of the State Legislature of Michigan. I appreciate the opportunity to appear before you to represent the views of the National Conference of State Legislatures and of the Legislature of Michigan.

The State legislatures are interested in the proper administration of welfare, medicaid, and social services should be readily apparent, but to understand the depth and significance of that concern, a brief description of the fiscal impact on Michigan's State budget might be useful.

For the fiscal year beginning October 1, 84.5 percent of the general funds of the State will be used for health, education, and welfare activities.

Turning to the health and social service budget, a comparison of fiscal year 1977–78 with fiscal year 1968–69 shows the rapid spiraling of health and welfare costs:

The appropriation for 1968–69 was $232.6 million representing 17.1 percent of the general fund. The appropiration for 1977–78 is $1,218 million representing 34.4 percent of the general fund.

One final fact: of the $1.2 billion, 51.9 percent of the funds are from State sources, 41.7 percent from the Federal Government—not counting food stamps—and the balance from miscellaneous sources.

Michigan's experience is by no means unique. Cost escalation and the impact of the medicaid program have placed a tremendous burden on all the States. Even as caseload rates level off, the pressure remains. The pressure is felt on every State program and on local programs like education which receive significant funding from the State government.

The response of State legislatures to the extreme growth rate has been to become more and more involved in oversight, regulatory review, cost containment, and quality control activities. Professional staff has been added to give legislators a better capability to understand and effect the process. State legislatures are meeting longer, and State legislators are more and more committing themselves to legislative duties on a full-time basis. Ninety percent of the State representatives and 55 percent of the State senators in Michigan list themselves as full-time legislators. The result has been extensive efforts by the Legislature of Michigan and the legislatures of our sister States to improve the administration of welfare programs and to become involved in the relationship between the Federal Government and the State government.

Thus, we come to the first and most important fact I would like to impress on this subcommittee. While State legislatures in many States are becoming better equipped to insure the most effective and efficient administration of State human resources programs, the Federal administration of welfare and other human resources programs for the most part has ignored the legislative branch of the State government.

This causes problems. It sometimes puts the State administration in the middle between conflicting demands of the Federal bureaucracy and the State legislatures; it sometimes frustrates legislative initiatives to improve programs. The Federal Government can be a juggernaut knocking over and ignoring distinctions and differences in State programs out of ignorance, frustration, or the sheer inability to make rules that take into account the variations that exist from State to State. Furthermore, State administrators sometimes get help from the Federal Government in requiring, by law or regulation, a change they cannot get from their State legislature.

Members of Congress should have a special understanding of the role State legislators can and do fulfill. Like you, State legislators are elected by the people and must be aware of their constituents' concerns and needs. Like you, some members are required to carry the responsibility through committee assignments of specializing in welfare matters and carrying the burden of pushing through legislation and appropriations for these programs.

Every complaint and problem you hear about the welfare programs, the State legislators also hear. Just as you call Federal administrators to account, State legislators can and do call State administrators to account. Yet when the Federal Government is concerned about some aspects of welfare administration, the State legislators are not consulted, nor is the State legislative process viewed as a key to corrective action.

I would like to deviate a little bit from my written testimony and respond to a question raised by Mr. Wydler about why it was that you had to have penalties in order to get States to do something about error rates. I would like to point up that the SSI program at about the same time was reported by the press to have a tremendous number of errors, and that States were balking at paying their share. Many of those errors have been corrected by the Federal Government. Nobody put a penalty on the Federal Government. Congress didn't say to the Social Security Administration, "If you don't improve the SSI administration we're not going to give you as much money," but Congress did call them on the carpet. Congress held several oversight hearings that I know of in the Ways and Means Committee and demanded to know what was being done to improve the error rates. Those error rates have come down without penalties.

So, when I say that the legislative process can be a key to corrective action, I am suggesting that the corrective action taken by the Federal Government in the SSI program is in large measure a result of the pressure put on the administration by Congress.

The same thing is true at the State level. A large amount of the credit and blame for the situation in error rates and improving that program rests with the State legislature.

Both the Michigan Legislature and the National Conference of State Legislatures have a policy of opposing Federal sanctions based on welfare error rates. We believe a State must have a corrective action plan which meets Federal standards, and that failure to carry out such corrective action should result in the State being out of compliance with its State plan. We believe such a corrective action plan should be reviewed, evaluated, and updated, and that error rates are a valuable measurement of the efficacy of, but not compliance with, the corrective action plan.

Michigan, we believe, has one of the best quality control units of any State in the Nation. Our legislature has committed resources for additional staffing in Wayne County and, through pressure from the legislature, the quality of personnel and administration is improving. Error rates are coming down, but not enough to bring Michigan within the 4 percent quality control guidelines being written into H.R. 7200 by the Senate Finance Committee. One specific example of a measure the Michigan Legislature forced on the State department of social services is a shift from determination of eligibility by declaration to a determination of eligibilty by verification.

Still, overpayments are a significant problem in Michigan. The State legislature could significantly reduce overpayments by shifting from a budgeted benefit to a flat grant. In very short order we would reduce our error rate to acceptable tolerances. However, the Michigan Legislature has refused to go to a flat grant system because it would cost $50 million—$25 million Federal share—to move to a flat grant system. The cure would be more expensive than the overpayments experienced under our present system. Some States, as you know, have shifted to a flat grant or a modified flat grant system. We believe that the option under the existing Federal law is left to the State. We believe that our payment system in Michigan is less expensive to ourselves and the Federal Government than the potential savings of lowering the rate of overpayments.

Both Michigan and the National Conference of State Legislatures strongly support quality control programs. We need to know what problems exist, and we have and will take corrective action and bring pressure on the State administrators to correct those errors. We do not believe that it is good policy for the Federal Government to reduce its share of the cost of administering a welfare program by imposing penalties. Furthermore, we do not believe that the Federal Government has used its existing powers to assure high quality administration of the welfare programs. I know of no case where the Department of Health, Education, and Welfare has employed the compliance procedure set forth in section 404 of the Social Security Act to enforce proper administration of a State welfare program, with respect to correcting error rates.

I would like to point out that Congress has adopted certain measures to protect its interest in assuring proper administration of welfare programs. First, each State must provide a portion—up to 50 percent—of the cost of welfare. States therefore have a significant incentive to run error-free programs. Second, Congress has provided a compliance proceeding which is appropriate in light of the nature of the welfare program.

The Federal participation in a welfare program arises from the Department of Health, Education, and Welfare accepting a State plan. The duties and obligations of the State are set forth therein and include a number of requirements set forth in title IV of the Social Security Act. The Secretary of Health, Education, and Welfare is empowered to cut off all, or any part, of a State program if he finds that that program or portion of a program is not substantially in compliance with the State plan.

Finally, the Federal Government may audit State expenditures and reduce Federal contributions under section 1116(d) of the Social Security Act.

To provide for penalties based on error rates projected from quality control determinations is simply a short cut proposed by an administration either too lazy or too uncertain to employ the existing provisions of the act. Why prove that an error resulted from a failure of the State as would be required under section 404 or 1116(d)? The answer is that the Congress accepted a fiscal and programmatic responsibility coequal to the States', and by agreement bears the same responsibility for the outcome.

We are well aware of the charge that States had forewarning that error rates were unacceptable but took no real measures to correct them until Federal sanction regulations were imposed. I believe the record shows that State legislatures have been taking initiatives, and are taking even more initiatives, as their expertise and capabilities increase. I believe that the same pressure on Congress with respect to error rates is felt by State legislatures. Finally, I believe that the Federal Government could cure many of the administrative problems it perceives at the State level by working with State legislatures.

Having discussed State administration of welfare programs at some length, I would like to point up several deficiencies in the Federal administration of welfare. First, though, let me hasten to say that the present leadership at the Department of Health, Education, and Welfare has attempted to improve its relationship with the States. They have enunciated a policy of strict accountability of States but greater flexibility of means, which will go a long way toward resolving some of the intergovernmental relations disputes which arise from time to time.

The good faith efforts of the Federal Government to find a resolution to the claims arising from purchase of services agreements prior to the effect of title XX are also an important step that this administration is taking. Hopefully Congress will approve, and will restore some semblance of comity to, the dealings of the Federal Government and the States in this extremely important area.

One change in Federal practice which should be required is the utilization of the section 404 compliance proceeding where policy positions are at variance between the Federal Government and a State. There has been a tendency on the part of the Department of Health, Education, and Welfare to avoid compliance because it is cumbersome, and opt instead for disallowing reimbursement under section 1116(d). The problem with this approach is that it denies to the States protections which Congress specified in the compliance provision.

Furthermore, it has not really been less cumbersome. States have been forced to go to court and sue, and the proceedings are as long and cumbersome or even more so. If the compliance proceeding or threat of compliance proceeding were utilized, I believe the State legislatures would become involved in the problem sooner, and a resolution acceptable to both the Federal Government and the affected State would be arrived at far more expeditiously.

A second problem which we in Michigan have experienced with the entrenched bureaucracy at the Department of Health, Education, and Welfare is the resistance to demonstration projects which in any way threaten their cherished beliefs. At the risk of belaboring the point, I would like to relate an example of significant interest to the Michigan Legislature. This is very similar, by the way, to the direct-payment-of-rents problem in New York which was discussed earlier.

The Michigan Legislature, rather than permit fuel to be shut off in the homes of welfare recipients, has agreed to pay the Consolidated Gas Co. directly when a welfare family is in default and the company would otherwise cut off the fuel supply.

For almost 2 years we have been working with the Department of Health, Education, and Welfare to arrange a demonstration project for Wayne County to permit welfare recipients on a voluntary basis to have their fuel bills paid directly to Consolidated Gas. The plan would permit the State to cover additional fuel costs above the amount budgeted in the welfare grant. If the family did not use fuel equal to the amount of their grant, they would receive payment for the difference. That is in order to try to encourage energy savings.

The law provides that to be eligible for reimbursement there must be a money payment, but nowhere is there a prohibition in the law against a welfare recipient assigning a portion of the benefit to the provider of a service. The Department of Health, Education, and Welfare has always interpreted "money payment" to mean an unencumbered money payment, and has insisted that the recipient have control over expenditure of the funds.

As a result, millions of dollars are being spent unnecessarily. First, Michigan provides a fuel allowance as part of the welfare payment. Second, when the family fails to use the money for that purpose, the State pays for the fuel directly in order to insure that the dependent children do not suffer. There are, as you can see, two conflicting desirable policies, and the 1115 demonstration project is a means of finding a way out of the dilemma.

The Michigan Department of Social Services met with Consolidated Gas Co. and the welfare rights group in Wayne County and worked out a demonstration proposal to which the Legislature of Michigan agreed. The department worked with the Department of Health, Education, and Welfare, and received assurances that such a demonstration project could be approved. Our State asked for and received technical assistance from HEW before submitting our proposal. The bureaucrats at HEW turned down the proposal.

Because of the legislature leadership's intervention, the State was given additional technical assistance, although the objections raised by the Department of Health, Education, and Welfare to the demonstration proposal were trivial. Michigan resubmitted the proposal in July, and again the Federal bureaucrats who reviewed the proposal denied it. The final decision has not yet been made by the Social Security Commissioner, but it should be noted that winter is about to descend on Detroit, and we have not yet been able to start the program.

Michigan is not the only State trying to run the very best welfare program it can, nor are our problems with the Federal Government insurmountable. I would like you to appreciate the growing role that State legislatures are taking, and their growing capacity. As Director of the Legislature of Michigan's Washington office, I spend well over two-thirds of my time on health and welfare issues. The New York Assembly has started a Washington office which is also concerned largely with welfare matters. The California Legislature, I understand, will be opening a Washington office.

There are also a large number of State legislatures that have a very active Federal-State relations component employing committees, commissions, Legislative Service Bureau activities, or other agencies. The National Conference of State Legislatures also serves as a means of involving State legislators in the intergovernmental process and helping them develop the expertise they need to deal with these highly complex programs.

What would be extremely useful is for the Federal Government to take the legislative branch of State government into account in their administration of welfare programs. Thank you.

Mr. FOUNTAIN. Thank you very much for a very informative statement.

What are the functions of your office here in Washington in representing the Michigan State Legislature?

Mr. ROBBINS. We have what is called the Legislative Council which is made up of eight members from each House, five from the majority and three from the minority. They created my office. So my office is a bipartisan office answering basically to the leadership of both Houses.

The committee that oversees my office is made up of the Senate majority leader, the House majority floor leader, the Senate minority leader, and the House minority leader.

They identify problems—that is intergovernmental relations problems—and they are basically nonpartisan in nature, some of which I have discussed in my statement.

The legislature is concerned about these. We do not operate programs so I am not dealing with grants, but we do have problems.

To give you a quick example, a Supreme Court decision some years ago makes it difficult for Michigan to carry out the way it makes payments to children living in families with no eligible grantee. In 60 percent of those cases the mother is remarried and is no longer eligible for welfare and the father is not responsible for the children. We do, however, make payments for those children. These cases also involve children living with aunts and uncles or grandparents.

It would cost the State of Michigan something like $41.7 million to come into compliance with the Federal regulations published in February. We identified some language and got an amendment attached to H.R. 7200 on the Senate side that would save about $26 million, of which half is Federal dollars.

This would actually increase the amount paid to those children but not as much as the Federal Government would require.

We identify a large number of these problems which are not only in welfare, but for example, may arise because the State created a lottery program which came into conflict with some Federal criminal laws and tax laws. We work for changes in those laws.

Mr. Fountain. Do you know how many other States have offices which operate similar to yours?

Mr. Robbins. There are about 22 States that have offices in Washington.

Mr. Fountain. How many nonpartisan?

Mr. Robbins. The State offices generally answer to the Governors and they are not, therefore, bipartisan. There are a few State offices which attempt to provide services to State legislatures as well, but it is basically understood that the director of those offices will be responsible to the Governor and to the party which the Governor represents.

Mr. Fountain. Is that true in your case?

Mr. Robbins. It is only true to this extent: First of all, if an issue becomes political, I provide information to my leadership, but I do not come up to Congress and represent to the Michigan delegation that the legislature stands for one position or another. We attempt to avoid constituent services. We attempt to avoid political involvement.

But, many problems which are political out here from the State's viewpoint in terms of intergovernmental relations—both the Democrats and Republicans agree that something should be done. We work very hard for that kind of agreement.

Mr. Fountain. Does your executive branch also have representation here?

Mr. Robbins. Yes. They represent the Governor and they are a partisan office.

Mr. Fountain. Do you coordinate your activities, or work together?

Mr. Robbins. Yes and no.

Sometimes——

Mr. Fountain. The positions are independent?

Mr. Robbins. Yes, they are totally independent and we have separate appropriations. I answer to the legislature which sets my priorities. He answers to the Governor who sets his priorities. Sometimes we work together on a problem. Sometimes if I am working in an area, the Governor's man will defer to me and vice versa. There are areas, however, where we are working on the issues separately but very rarely at cross purposes. There are very few instances where the State legislature interests differ that much from the Governor's in terms of intergovernmental relations problems.

Mr. Fountain. I can see the merit of the kind of arrangement you have because, regrettably, down through the years—and I realize many things have changed since I served in the North Carolina Senate, from 1947 through 1952—so many situations do arise where the legislatures don't have the slightest idea what it is all about until the Governor makes a recommendation. I can easily see how it is helpful for a State legislature to have someone on the scene who can keep them advised of the legislation that is anticipated that may cause complications and which can make a difference in how they make their decisions, so they can pass better legislation.

Mr. **Robbins.** Sometimes it embarrasses some of the State administrators when the legislature asks us to find out whether something they have been told by the State administrator is actually the case. On three or four occasions we have gotten different information from the Federal Government. So, it does keep the State administrators a little more honest for the legislature to have an independent source.

Mr. **Fountain.** I imagine most administrators would rather be represented in Washington through the Governor's office, wouldn't they?

Mr. **Robbins.** Right. Well, I've developed some expertise over 7½ years in the health and welfare area, and Dr. Dempsey has testified before your subcommittee—I am sure you know him—he is very close to the Governor, but he and I work together very closely on a number of issues.

Mr. **Fountain.** Health and welfare are big areas down my way. They are among the biggest operations in each of the counties in my congressional district. Our people are very concerned about coming up with the most efficient system that will really take care of needy people, and put the able-bodied citizens to work somewhere in a manner that would give them incentive to want to work.

I wonder if you would explain very briefly how section 404 proceedings would operate and how the use of this proceeding would be administratively beneficial to both the States and to HEW.

Mr. **Robbins.** There is a history of utilization of the compliance proceeding which is section 404. You have it in title 19 and so forth. Most of the titles of the Social Security Act which are State-administered programs have a proceeding whereby the Federal Government cuts off further expenditures under a program or a portion of the program when it determines the State is substantially out of compliance with its State plan.

The State must be notified of how it is out of compliance, and there is a set administrative procedures routine including a hearing and a determination by the Secretary of the Department.

If there is still a problem, then the issue may be heard by an appellate court. Instead of going to the district court you would go to the court of appeals at the Federal level.

The procedure has fallen into disuse—partly because it is cumbersome and partly because they found that under section 1116(d) they can simply avoid the issue by disallowing reimbursement of the funds.

The problem is that instead of 1116(d) being used for audit exceptions where basically the State made an expenditure which it should not have made and the issue being strictly on the basis of that, it falls into policy questions. The classic example is the example of the social service programs or the purchase of service arrangements or the question of whether the services were available without cost. There were a number of issues, some of which have been tried in court.

There was a memo which was put out by Mr. Twining called the Twining memorandum which basically stated what the policy of title 4–A social services was after the fact, and then they disallowed expenditures under section 1116(d)—millions of dollars. In Michigan it came to something like $65 million. It was disallowed without any right to an Administrative Procedural Act review. What we were allowed was reconsideration.

But that was pro forma. Then we had to go to court.

That is one of the issues that is finally being resolved by this administration which has come in and said, "Let's settle this thing if we can find an amicable way of doing it because we can drag it through the courts forever."

My point is this. Where they have approved the State plan and they have said, "You may run such and such a program," and then they come along and say, "Well, you're not running the program the way we thought you were running it or the way you should run it."

My view of section 404 is that the proper way to handle it is for them to say "You are out of compliance with the plan and we have approved your plan, but you are out of compliance with it." This cuts off funds in the future. One, this has the advantage of putting the State on notice that it is doing something that the Federal Government does not like and two, it has the advantage of not taking away money which the State thought it had a right to spend.

From the State legislature's point of view, that is terribly important. I will try to emphasize that point because there are just a few people in any State legislature who are responsible for carrying the welfare budget through the legislative process. They get that budget through, and they have to answer the questions of their compatriots on the floor of the House and Senate which are very real questions.

Then all of a sudden down the line 6 months later they come back to the State legislature and they say, "We are going to need another $20 million." Then they say, "Wait a minute, this budget has already taken up 80 percent of the new dollars that we developed in this State, so what do you need $20 million more for?" They say, "Well, the Federal Government didn't give us the money that we thought we were going to get from them."

It is very hard to get that bill through the State legislature. My feeling is that if we catch it early enough with a compliance proceeding, then the State legislature will make darn sure that this problem is resolved before it gets to an actual hearing.

Dr. **Goldberg.** Was the Twining interpretation published as a proposed regulation in the Federal Register?

Mr. **Robbins.** It was not.

Dr. **Goldberg.** Should it have been?

Mr. **Robbins.** That is one of the reasons why it was held invalid by the court. They did come up with a set of proposed regulations subsequently.

What happened was that the program was getting out of hand. The Federal Government was very concerned. The projected growth of the program was from about $500 to $800 million to $1.2 to $2.5 to $4.7 to $7.2 billion over a period of years.

It was already up to about $1.2 billion with projections to $2.5 billion.

Congress put a closed end on Social Services at $2.5 billion in 1972. It was subsequent to 1972 that HEW put forth regulations which were so strict that they would have really held expenditures to about $800 million had the HEW regulations not been held up by Congress.

Prior to 1972 was the Twining memorandum. It came out around May or June of 1972.

Dr. **Goldberg.** I am interested in the procedures for consultation. Obviously if it had been published as a proposed regulation there would have been ample opportunity for interested groups to present their views and to obtain modification of the proposal if it was not acceptable or consistent with the legislation.

Alternately, was that interpretation made available for review and comment to the National Governors' Conference and other interested groups through the OMB Circular A-8 procedure?

Mr. **Robbins.** No. The circumstances under which the Twining memorandum was issued was one of a number of States—the State of Illinois—I was working for the State of Illinois at that time and worked on that particular issue—had come to the administration with the idea of getting interpretations on purchase of services. That is where one agency of the State government purchases from another State agency services for welfare population people, former and potential, et cetera.

The law had been passed in 1967 permitting purchase of serivces. No regulations had really been spelled out as far as the program was concerned.

Over a period of 1½ years, we had worked out with them purchase of service arrangements with three of our State departments in Illinois—the department of mental health, the department of corrections, and the department of children and family services—which amounted to about $181 million.

A number of other States were knocking at the door. New York came in. Other States wanted to come in. There were a large number of questions as to what kind of services could be purchased. What circumstances could they be purchased under? Could you take the whole education system in the State of Mississippi and make it a service provided by the State to the poor?

So education services were questioned and the problem with the Twining memorandum was that it did more than suggest what the guidelines would be in the future and give some direction HEW would accept in the way of purchase of services.

What it really attempted to do was to say, "This is now and has been the purchase of services which we would allow." It was that, which was challenged in court. It was on the basis of that memorandum that HEW disallowed or deferred payment on these millions of dollars of claims, and it was on that basis—at least partially on that basis—that they did not publish it as a regulation in the Federal Register that the District Court in Washington, D.C., struck down the Twining memorandum.

Mr. **Fountain.** We are just about out of time. I have several questions which I would like to have you respond to.

You noted that State legislatures are becoming increasingly involved in program oversight, regulatory review, cost containment, and quality control activities.

Frankly, I view this as a healthy trend, a very healthy development. Personally, I think it is a tremendous improvement. It is also a development which the Advisory Commission on Intergovernmental Relations, of which I am a member, has encouraged.

You stated that when the Federal Government is concerned about some aspects of welfare administration, State legislatures are not consulted. When the Congress is involved, I think it is essential that the organization you represent, or individual State legislatures, take the initiative in requesting an opportunity to testify before the appropriate committees, if you are not invited.

With respect to the issuance of agency rules and regulations, the OMB A-95 process, to which Dr. Goldberg referred, is supposed to afford the public interest groups an opportunity for early involvement. I am aware, however, that there is dissatisfaction with the operation of that review and comment process.

Has the National Conference of State Legislatures been actively involved in these avenues for policy input?

Mr. **Robbins.** To be quite honest with you, I do not work for the NCSL.

Mr. **Fountain.** I thought you might know.

Mr. **Robbins.** I find it difficult to answer that question. The problem is that the National Conference deals with issues at the Federal level.

What I was more concerned about was the fact that some of these issues arise at a particular State level where the regional offices should be more helpful.

For example, the social services problems. Had there been more communication between the regional office and the people in our State legislature who passed the appropriation bills and passed the authorization bills, I believe that a lot of the problems could have been worked out before we actually got into the program.

The same thing is true with so many issues where the regional offices do go out to the States or should be going out to the States and meeting with heads of the administration and they should be meeting with the legislators.

It is my understanding that in region 10, where Seattle is the headquarters, they do an excellent job of relating to State legislators. But in region 5 it is almost notorious as to the lack of communication, not only with the legislators, but with the States as well.

This administration, I would point out, has reviewed its HEW regional offices and has changed that structure somewhat. They plan to have a person working for the head—they changed the title for the person they used to call regional director and now they have another name for that person—but one of the three chief lieutenants will be a person whose responsibilities will include going out to States and making contacts and making sure that people are informed.

I would highly second that kind of approach. I used to work in the regional office for the Office of Education. I think it is tremendously important that whoever works in that regional office coordinates with the States. They speak with the Governor and the Director of the Department of Social Services, and they should also get together with the key people in the State legislature. They should inform them of what their concerns are, and in turn let the legislators inform them of what the State's concerns are in the legislature.

Mr. **Fountain.** Getting back to section 404, has your dissatisfaction with HEW's tendency to avoid utilization of section 404 compliance proceedings in disputes with the States been brought to the attention of the appropriate legislative committees of the Congress, and to Secretary Califano's personal attention?

Mr. ROBBINS. About 3 months before the change in administration, Don Wortman sent me a letter saying that HEW was reviewing the use of Section 404 compliance hearings. I have made my concerns known to the Ways and Means Committee and to the previous administration. I have not dealt with this administration.

Mr. FOUNTAIN. What response have you gotten?

Mr. ROBBINS. Very careful. It is an undertaking which has to be gone into slowly. There are some fears. I do think there is an awful lot of promise.

The basic problem is this. You know in the civil rights area when a school board was held out of compliance that it created a political uproar. I think that the term "compliance" and the Federal Government saying "You are out of compliance and we are going to cut off your funds" has, as a result, gotten a slightly fearful meaning and administrations don't particularly like to do that.

On the other hand, I think there was also a view that historically you could only cut off the entire program. Congress did amend that to permit HEW to only cut off a portion of the program. So, only that portion that was out of compliance could be cut off.

The result is that the tool can be used much more like a surgeon's tool than a sledge hammer now. Therefore, it should not have the kind of connotation that the civil rights compliance hearings had.

Mr. FOUNTAIN. I am sure that is helpful. You stated that Michigan has refused to go to a flat grant system as a means of reducing its overpayment error rate because it would cost $50 million more than the present method of budgeting benefits. Why cannot a flat grant system be devised that would not cost additional money?

Mr. ROBBINS. Basically it is because of cost-of-living differentials throughout the State. The Detroit area is much more expensive to live in and the standards of living are higher.

Our tendency in Michigan would be to bring everybody up to at least near the top rather than dropping people's benefits and having people lose benefits.

There are times, I suppose, when the economy is booming and the welfare levels are down a little bit when it would be less expensive to go to a flat grant system. The issue has been raised in our State legislature at least three times. In each case, they have not wanted to have recipients lose benefits, therefore, there is the cost.

Mr. FOUNTAIN. In connection with the National Conference as well as Michigan's objection to the use of penalties in the case of excessive error rates, your State welfare director commented on this matter when he testified before the subcommittee at our earlier hearings in July. Dr. Dempsey suggested that Federal disallowances might more effectively and realistically be restricted to the Federal participation in administrative costs, rather than benefit payments.

Do you have any comments on that suggestion?

Mr. ROBBINS. I think that has more promise. The basic problem has been to identify what administrative costs would be cut. It is much easier to look at dollar losses because of overpayment.

The State of Michigan is not unalterably opposed. We would in a sense, like to have the authority sometimes to cut off our locals when they are not spending money properly.

We just think that under these circumstances and this kind of program, it is not a particularly good function.

Mr. **Fountain**. Of course it is not always politically feasible to cut off funds to needy people, is it?

Mr. **Robbins**. Correct.

Mr. **Fountain**. I can sympathize with you on Michigan's unsuccessful efforts to convince HEW of the merits of funding a demonstration project in connection with the payment of fuel bills. However, I think it should be noted that demonstration grants, under the law, are discretionary with the agency.

Isn't Michigan's problem of handling fuel bills similar to New York City's problem in connection with vendor payments for rent and utilities? And isn't this matter now under consideration by the Congress as a part of H.R. 7200?

Mr. **Robbins**. It is similar but not identical.

Our problem is that we are paying twice. There are a number of other States that have come up with this problem. Connecticut has indicated the problem.

It is one that I would point out to the subcommittee as a serious problem in light of welfare reform. I have raised the question with Mr. Cardwell asking, "What will you do with the welfare reform program when the Federal Government makes the payments to an individual and the individual at the end of the month has not paid his utility bill?" The risk of the children being frozen to death is there. It happens occasionally around the country. It causes a political uproar when something like that happens.

We had a case I remember in Ohio last year. The man who died of freezing because he had not paid something like $4.50 on his bill. I don't remember the exact amount, but it was a very small amount. I asked what happens? Does the State use emergency funds? If it does, then there has to be some mechanism where the Federal Government and State government are involved in a program and where the Federal Government is going to be making payments to individuals for all purposes. If they are not using the money for the purposes for which it is given, and the Federal Government has advertised that the States are going to be out of the business of providing the basic support for these individuals. You are going to provide an emergency fund which is really more for emergency purposes like burnout and things like that. We could end up using that money to pay people for fuel emergencies.

The problem is a very difficult one. I am not saying that Michigan's solution is good or that the Department's position is unreasonable.

First of all, it is not a big expenditure. A demonstration project is not a cost to the Federal Government except in one area which is under normal circumstances a fuel limitation. I think it is $42 a month as a maximum that we will pay on a fuel allowance. Where the person voluntarily entered into this program, and if their bill ran $55 a month the Federal Government and State government would pick up the additional $12 which would be an additional cost to the Federal Government.

We could, on the other hand, simply raise our fuel allowance to $55 for that family and make that part of the payment.

So, there is no real dollar cost of this demonstration proposal to the Federal Government.

Mr. FOUNTAIN. I had in mind the situation in New York where the benefit payment covers rent and utilities, but the recipient doesn't pay the rent and fuel bills. The State then has to pay the landlord and utility directly and, consequently, pays twice.

Mr. ROBBINS. We are having a problem. The piece of legislation in H.R. 7200 that we requested is slightly dissimilar to what New York wanted. They wanted to increase the protective payments from 10 to 20 percent.

What we wanted to do in terms of rent was to permit dual payment where the renter, the welfare recipient, and the lessor would be copayees on the check and neither could sign the check without the other.

We are finding in Michigan that a large number of homeowners or renters are refusing to rent to welfare recipients because of the problem of nonpayment of rent.

New York had an approach to the problem, and we find that that approach is not terribly useful because it is extremely complicated to be done properly.

I don't want to find fault with my sister State, but they were using the 10-percent protective payment system but not doing all the other things that protective payments require. We have only about 3 percent of our cases in protective payment. It requires a plan of how you are going to get the person back into an independent status. It requires in our case a separate computer. It is really a much more complicated system.

But the problem is similar. The only difference is we would like to have direct payment of utilities as opposed to dual payment because utilities have to be done over a heating season whereas rent is really a month-to-month basis.

Our problems are similar. We worked together on this problem. That is New York and Michigan, and it was Mr. Vander Jagt who was the ranking minority member on the appropriate subcommittee of the Ways and Means Committee from Michigan, who introduced the amendment on H.R. 7200 for both States.

Mr. FOUNTAIN. If there are no other questions, we thank you very much for your helpful testimony and answers to our questions.

This completes our scheduled hearings on the administration of the AFDC program.

The subcommittee stands in recess subject to the call of the Chair.

[Ms. Lamphere's prepared statement follows:]

PREPARED STATEMENT OF PHYLLIS LAMPHERE, PRESIDENT, NATIONAL LEAGUE OF CITIES

DEAR MR. CHAIRMAN: On behalf of the National League of Cities, I would like to submit the following statement for the record in support of the Committee's action to improve the administration of the Aid to Families with Dependent Children program. The existing program is a typical example of a law which has been amended too many times, is over-encumbered by frequently changing and complex regulations—situations which create both conflicting purposes and faulty administration. We have publicly endorsed reform of the existing welfare system.

With the exception of cities which are also counties, cities have little operating authority and virtually no control over state or county-run welfare programs. There are, however, many general assistance programs financed by state and local funds which meet the short-term needs of those not covered or covered inadequately by the AFDC program.

Cities, however, do have major responsibility for administering employment programs—especially the Comprehensive Employment and Training Act (CETA) which will double its public service employment component by the end of this year. Under amendments to CETA enacted in 1976, there is a specific legislative requirement that 50 percent of the new jobs be targeted to the long-term unemployed and public assistance recipients, including those on AFDC. In most cases, cities are well ahead of the monthly phase-in targets developed by the Department of Labor to employ 725,000 unemployed, low income individuals. We strongly support the decentralized delivery system—vesting primary administrative responsibility in local governments—established by CETA and urge its continuation. We would like to see the public service jobs component more closely linked to *local* unemployment rates and to have the program automatically activated in times of high unemployment.

In the context of this background on the role of cities in welfare and employment programs, the League would like to comment briefly on the issues presented by the Subcommittee.

Many of the concerns of cities with regard to the quality control program are related to the complexity of the regulations governing the programs which are published by the Department of Health, Education, and Welfare ,as well as by the States. It is well known that the volumes of complex materials which must be read and understood by workers at the local level, in order to make a determination of eligibility and payment amount, are unreasonable. In addition, the frequency with which these regulations are changed discourage workers at the local level from even attempting to keep up to date on new procedures.

This problem is neither new nor unique. We believe that basic reform of the welfare program is necessary to achieve simplification. The changing of operational rules can be corrected administratively. Both simplification and a greater permanency will assist in reducing the error rates in the welfare program and make the quality control effort more effective.

The National League of Cities has some misgivings about the integration of welfare recipients into the CETA program. The population receiving AFDC, as acknowledged by the Administration, has little or no job orientation, may be disabled, and includes families with young children. This group requires a higher level of effort on the part of the organizations operating employment programs—more training, more supportive social services, a higher level of supervision, and a longer transition period before program supports can be removed.

In order to create enough jobs for this population group, the unemployment rate must be sufficiently low so that others, not on welfare, and with marketable skills are readily employed. We cannot displace a job-ready individual completely; when there is high unemployment, it may mean that more public service jobs must be made available. In addition, the administration must recognize that it is more time consuming and expensive to prepare a person with no attachment to the labor force for employment. More administrative and training funds must be made available.

The National League of Cities supports reform of the welfare system on a phased-in basis. Some initial steps can be taken to simplify and standardize the present system, while preserving a strong link between employment and welfare. In the long term, we believe that provision of welfare should be a federal responsibility and that the operation of employment and training programs should remain at the local level of government.

Thank you, Mr. Chairman, for providing us an opportunity to express our views on these most important questions.

[Whereupon at 11:40 a.m. the subcommittee adjourned, to reconvene subject to the call of the Chair.]